

*In the opinion of Bond Counsel, under existing law, assuming compliance with the tax covenant described herein, interest on the Series 2010A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed under section 55(a) of the Code. The City has taken no action to cause, and does not intend, interest on the Series 2010B Bonds to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the opinion of Bond Counsel, under existing law, interest on the 2010 Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.*

**\$35,825,000**  
**City of Burbank, California**  
**Burbank Water and Power**  
**Electric Revenue/Refunding Bonds, Series of 2010A**

**\$52,665,000**  
**City of Burbank, California**  
**Burbank Water and Power**  
**Electric Revenue Bonds, Series of 2010B**  
**(Taxable Build America Bonds)**

**Dated: Date of Delivery**

**Due: June 1, as shown on the inside cover**

**This cover page contains certain information for general reference only and is not a summary of the security or terms of the 2010 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.**

The \$35,825,000 Burbank Water and Power Electric Revenue/Refunding Bonds, Series of 2010A (the "Series 2010A Bonds") and the \$52,665,000 Burbank Water and Power Electric Revenue Bonds, Series of 2010B (Taxable Build America Bonds) (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, the "2010 Bonds") are being issued by the City of Burbank, California (the "City") pursuant to the Burbank Water and Power Electric Revenue Bond Indenture, dated as of October 1, 1998 (as supplemented and amended, the "Indenture"), between the City and Wells Fargo Bank, National Association, as successor trustee (the "Trustee").

The City expects to designate the Series 2010B Bonds as "build America bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act"), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on such Series 2010B Bonds. The City is obligated to make all payments of principal of and interest on the Series 2010B Bonds from the sources described herein whether or not it receives cash subsidy payments pursuant to the Stimulus Act. See "DESCRIPTION OF THE 2010 BONDS - Designation of Series 2010B Bonds as Qualified "build America bonds"" herein.

The 2010 Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2010 Bonds. Purchasers of the 2010 Bonds will not receive physical certificates representing their interest in the 2010 Bonds purchased. Individual purchases of the 2010 Bonds will be made in book-entry form only. Principal of, premium, if any, and interest on, the 2010 Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2010 Bonds. See "DESCRIPTION OF THE 2010 BONDS" and "BOOK-ENTRY SYSTEM" herein.

The 2010 Bonds will be issued in denominations of \$5,000 principal amount or any integral multiple thereof. The 2010 Bonds will be dated the date of delivery and will bear interest at the rates set forth on the inside cover hereof. Interest on the 2010 Bonds will be payable semiannually on June 1 and December 1 of each year, commencing December 1, 2010 and will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The 2010 Bonds are subject to redemption prior to maturity as described herein.

The Series 2010A Bonds are being issued (i) to refund a portion of the outstanding 1998 Bonds and the 2001 Bonds (as defined herein) and (ii) to pay the costs of issuance of the Series 2010A Bonds. The Series 2010B Bonds are being issued (i) to finance a portion of the costs of certain improvements to the Electric System, including the conversion of certain residential and commercial distribution circuits to 12kV, construction of a distributing substation, and implementation of distribution automation projects, as described herein or such other or additional facilities for the generation, transmission or distribution of electricity that the City hereafter determines to substitute therefor (the "2010 Electric Project"), (ii) to fund a deposit to the Parity Reserve Fund for the Bonds and any Parity Debt of the Electric System secured thereby, and (iii) to pay the costs of issuance of the Series 2010B Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS," "PLAN OF REFUNDING" and "THE 2010 ELECTRIC PROJECT." The 2010 Bonds are being issued on a parity with certain Prior Bonds (as defined herein).

**The 2010 Bonds are special, limited obligations of the City payable from Electric Net Revenues, which are Electric Revenues (as defined herein) of the Electric System remaining after the payment of Electric Operating Expenses (as defined herein). The 2010 Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain available moneys pledged therefor, solely from Electric Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the 2010 Bonds. The issuance of the 2010 Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.**

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**Maturity Schedule**  
**(see inside cover)**

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The 2010 Bonds are offered when, as and if issued and received by the Underwriters, and subject to the approval of legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the City, and certain other conditions. Certain legal matters will be passed on for the City by the City Attorney and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Public Financial Management, Inc. Los Angeles, California is serving as Financial Advisor to the City in connection with the issuance of the 2010 Bonds. It is expected that the 2010 Bonds will be available for delivery through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer (FAST) on or about March 31, 2010.

**Morgan Stanley**

**Citi**

**Barclays Capital**

## Maturity Schedule

### \$35,825,000 Series 2010A Bonds

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u> <sup>†</sup>
2012	\$2,290,000	3.000%	0.860%	12082TAM4
2013	2,490,000	4.000	1.200	12082TAN2
2014	2,595,000	4.000	1.530	12082TAP7
2015	2,700,000	5.000	1.930	12082TAQ5
2016	2,835,000	5.000	2.400	12082TAR3
2017	2,975,000	5.000	2.790	12082TAS1
2018	3,125,000	5.000	3.100	12082TAT9
2019	3,280,000	5.000	3.270	12082TAU6
2020	3,445,000	5.000	3.460	12082TAV4
2021*	3,200,000	5.000	3.670	12082TAW2
2022*	3,360,000	5.000	3.760	12082TAX0
2023*	3,530,000	5.000	3.860	12082TAY8

### \$52,665,000 Series 2010B Bonds

\$17,455,000 6.123% Term Bonds due June 1, 2030 Price: 100%; CUSIP<sup>†</sup>: 12082TAK8

\$35,210,000 6.323% Term Bonds due June 1, 2040 Price: 100%; CUSIP<sup>†</sup>: 12082TAL6

\* Priced to a par call on June 1, 2020.

† CUSIP data included here is subject to Copyright, American Bankers Association. CUSIP data included herein is provided by the Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. and is provided for convenience of reference only. None of the City, BWP or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

# **City of Burbank, California**

## **CITY COUNCIL**

Gary Bric, Mayor  
Anja Reinke, Vice Mayor  
David Golonski, Councilmember  
David Gordon, Councilmember  
Jess Talamantes, Councilmember

## **CITY STAFF**

Michael Flad, City Manager  
Joy Forbes, Deputy City Manager  
Justin Hess, Deputy City Manager  
Margarita Campos, City Clerk  
Dennis A. Barlow, City Attorney  
Donna Anderson, City Treasurer  
William Yeomans, Interim Financial Services Director

## **BURBANK WATER AND POWER STAFF**

Ronald E. Davis, General Manager, Burbank Water and Power  
Bob Liu, Chief Financial Officer, Burbank Water and Power  
Xavier G. Baldwin, Interim Assistant General Manager/Power  
Jorge C. Somoano, Assistant General Manager/Electrical Distribution

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## **FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Los Angeles, California

## **BOND COUNSEL**

Fulbright & Jaworski L.L.P.  
Los Angeles, California

## **TRUSTEE**

Wells Fargo Bank, National Association  
Los Angeles, California

## **VERIFICATION AGENT**

The Arbitrage Group, Inc.  
Tuscaloosa, Alabama

No dealer, broker, salesperson or other person has been authorized by the City of Burbank, California (the "City") or the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2010 Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2010 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the City and other sources that are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or in the City's Electric System (as defined herein) since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2010 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2010 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as specifically set forth herein, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

The City maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2010 Bonds.

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**OFFICIAL STATEMENT  
RELATING TO**

**\$35,825,000**  
**City of Burbank, California**  
**Burbank Water and Power**  
**Electric Revenue/Refunding Bonds, Series of 2010A**

**\$52,665,000**  
**City of Burbank, California**  
**Burbank Water and Power**  
**Electric Revenue Bonds, Series of 2010B**  
**(Taxable Build America Bonds)**

**INTRODUCTION**

**General**

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Burbank, California (the "City") of \$35,825,000 Burbank Water and Power Electric Revenue/Refunding Bonds, Series of 2010A (the "Series 2010A Bonds") and \$52,665,000 Burbank Water and Power Electric Revenue Bonds, Series of 2010B (Taxable Build America Bonds) (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, the "2010 Bonds"). The 2010 Bonds are authorized and issued pursuant to Article 12 of Chapter 4 of Title 2 (formerly Article 12 of Chapter 14) of the Burbank Municipal Code, as amended, and a resolution adopted by the City Council of the City on March 2, 2010. The 2010 Bonds are also issued pursuant to the Burbank Water and Power Electric Revenue Bond Indenture, dated as of October 1, 1998 (the "Original Indenture"), as supplemented and amended, including as supplemented and amended by the Fourth Supplemental Burbank Water and Power Electric Revenue Bond Indenture, dated as of March 1, 2010 (the "Fourth Supplemental Indenture"), relating to the Series 2010A Bonds, and as supplemented and amended by the Fifth Supplemental Burbank Water and Power Electric Revenue Bond Indenture, dated as of March 1, 2010 (the "Fifth Supplemental Indenture"), relating to the Series 2010B Bonds, each by and between the City and Wells Fargo Bank, National Association, as successor trustee (the "Trustee"). The Original Indenture, as previously amended and supplemented, and as amended and as supplemented by the Fourth Supplemental Indenture and the Fifth Supplemental Indenture, is referred to herein as the "Indenture." The 2010 Bonds are being issued on a parity with certain Prior Bonds (as defined hereafter). Under the Indenture, the City may issue additional obligations on a parity with the 2010 Bonds and the Prior Bonds.

On November 18, 1998, the City issued \$45,160,000 of Electric Revenue Bonds, Series of 1998, under the Indenture (the "1998 Bonds"). The 1998 Bonds have a final maturity date of June 1, 2023 and are payable on a parity with the 2010 Bonds. As of January 1, 2010, \$38,385,000 principal amount of 1998 Bonds were outstanding. On November 8, 2001, the City issued \$54,745,000 of Electric Revenue Bonds, Series of 2001, under the Indenture (the "2001 Bonds"). The 2001 Bonds have a final maturity date of June 1, 2011 and are payable on a parity with the 2010 Bonds. As of January 1, 2010, \$12,435,000 of 2001 Bonds were outstanding. On July 10, 2002, the City issued \$25,000,000 of Electric Revenue Bonds, Series of 2002, under the Indenture (the "2002 Bonds" and, together with the 1998 Bonds and the 2001 Bonds, the "Prior Bonds"). The 2002 Bonds have a final maturity date of June 1, 2022 and are payable on a parity with the 2010 Bonds. As of January 1, 2010, \$19,740,000 principal amount of 2002 Bonds were outstanding. The Prior Bonds, together with all additional bonds issued under the Indenture on a parity with the Prior Bonds (including, but not limited to, the 2010 Bonds), are referred to herein as the "Bonds." Certain maturities of the outstanding 1998 Bonds and a portion of each maturity of the outstanding 2001 Bonds will be refunded with a portion of the Series 2010A Bonds and certain other moneys. See "PLAN OF REFUNDING."

The City owns and operates an integrated electric system which includes generation, transmission and distribution facilities (the “Electric System”) and a water transmission and distribution system (the “Water System” and, together with the Electric System, the “Enterprise”). The Prior Bonds (and the 2010 Bonds and any other additional Bonds and Parity Debt of the Electric System) are payable from and secured by Electric Net Revenues (as defined herein) and by certain other funds pledged therefor under the Indenture. The Water System bonds issued in 1998 (and any additional Water System bonds and parity debt of the Water System) are payable from and secured by the revenues relating to the Water System portion of the Enterprise and by certain other funds pledged therefor under the 1998 indenture of trust relating to the Water System. Water System revenues and amounts pledged under the 1998 indenture of trust relating to the Water System are not security for the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS.”

**The 2010 Bonds are special, limited obligations of the City. The 2010 Bonds shall not be deemed to constitute a debt or liability of the City, the State of California (the “State”) or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State or of any political subdivision thereof, but shall be payable, except to the extent of certain available moneys pledged therefor, solely from Electric Net Revenues. Neither the faith and credit nor the taxing power of the City, the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the 2010 Bonds. The issuance of the 2010 Bonds shall not directly or indirectly or contingently obligate the City, the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.**

#### **The City**

The City is located in the greater metropolitan Los Angeles area approximately 12 miles northeast of the Los Angeles Civic Center complex. The City was incorporated as a general law city in 1911 and adopted its City Charter in 1927. The City’s population as of January 1, 2009 was 108,082 according to the California Department of Finance. The City provides its residents with electric, water and sewer services and operates its own police and fire departments. See “APPENDIX A – THE CITY OF BURBANK ECONOMIC AND FINANCIAL INFORMATION.”

#### **Burbank Water and Power and the Enterprise**

The City’s Public Service Department was established in 1913 under the laws of the State, to supervise the generation, purchase, distribution and sale of electricity and the purchase, distribution and sale of water. In 2000, the name of the Public Service Department was changed to Burbank Water and Power (“BWP”). BWP provides service to all electric and water customers within the City. See “BURBANK WATER AND POWER.”

The Electric System provides service to all electric consumers within the limits of the City, which encompasses 17.1 square miles. The City’s electric requirements are provided by a variety of sources. For the fiscal year ended June 30, 2009, the average number of retail customers of the Electric System was 51,367, and the total megawatt hours generated and purchased for sale to customers throughout the City were approximately 1,184,000. See “THE ELECTRIC SYSTEM – Power Supply.”

#### **Purpose of the 2010 Bonds**

The Series 2010A Bonds are being issued (i) to refund a portion of the outstanding 1998 Bonds and the 2001 Bonds and (ii) to pay the costs of issuance of the Series 2010A Bonds. See “ESTIMATED

SOURCES AND USES OF FUNDS,” “PLAN OF REFUNDING” and “THE 2010 ELECTRIC PROJECT.”

The Series 2010B Bonds are being issued (i) to finance a portion of the costs of certain improvements to the Electric System, including the conversion of certain residential and commercial distribution circuits to 12kV, construction of a distributing substation, and implementation of distribution automation projects, as described herein or such other or additional facilities for the generation, transmission or distribution of electricity that the City hereafter determines to substitute therefor (the “2010 Electric Project”), (ii) to fund a deposit to the Parity Reserve Fund for the Bonds and any Parity Debt of the Electric System secured thereby, and (iii) to pay the costs of issuance of the Series 2010B Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE 2010 ELECTRIC PROJECT.”

**Rate Covenant**

The City covenants, pursuant to the Indenture, that it shall prescribe, revise and collect such charges for the services, facilities and electricity furnished by the Electric System which, after making allowances for contingencies and error in the estimates, shall provide Electric Net Revenues at least sufficient to pay the following amounts in the order set forth:

- (1) The interest on, and principal and Redemption Price of, the outstanding Bonds and any Parity Debt of the Electric System as the same shall become due and payable;
- (2) All payments required for compliance with the Indenture, including payments required to be made into any bond reserve fund for the Bonds; and
- (3) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Electric Net Revenues;

and the charges shall be fixed so that in each Fiscal Year (i) the Electric Net Revenues shall be at least equal to 1.00 times the amount required to pay the items specified in clauses (1), (2) and (3) above, and (ii) the Adjusted Electric Net Revenues shall be at least equal to 1.20 times the amount of Annual Debt Service for such Fiscal Year. “Adjusted Electric Net Revenues” means the Electric Net Revenues plus, for purposes of determining compliance with the rate covenant only, other lawfully available funds of the City budgeted by the City for the payment of Electric Operating Expenses or Debt Service on the Bonds and/or any Parity Debt of the Electric System. Moneys on deposit in any unrestricted funds are not pledged for the benefit of the owners of the Bonds during such fiscal year. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS – Rate Covenant” (which section includes definitions of certain other terms used in this subsection).

Electric rates are established by the City Council and are not subject to regulation by the California Public Utilities Commission (the “CPUC”) or any other state agency.

**Joint Powers Agency Contracts**

In addition to its own generation facilities, the City has entered into a number of power purchase contracts and transmission service contracts with two joint action agencies. The City’s obligations to make payments with respect to certain of these contracts are unconditional “take-or-pay” obligations, obligating the City to make such payments as operating and maintenance expenses of the Electric System whether or not the related projects are operating or operable, or the output thereof is suspended, interfered with, reduced, curtailed or terminated in whole or in part. Since such obligations are payable as operating

and maintenance expenses of the Electric System, the obligations are payable prior to any of the payments required to be made on the Bonds and any Parity Debt of the Electric System. In addition, certain of the contracts contain “step up” provisions obligating the City to pay a share of the obligations of the defaulting participant. See “THE ELECTRIC SYSTEM – Non-Burbank Owned Resources.”

## **Reserve Fund**

***Reserve Fund Requirement when 2010 Bonds are Issued.*** The 2010 Bonds will be secured by amounts on deposit in the Parity Reserve Fund established for the Bonds under the Indenture and held and maintained by the Trustee. Upon the issuance of the 2010 Bonds, the balance on deposit in such Parity Reserve Fund will be equal to the Reserve Fund Requirement for the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” “Reserve Fund Requirement” is defined in the Indenture, prior to the Transition Date (defined below), to mean, as of any date of determination and excluding any Parity Debt of the Electric System for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the least of (a) ten percent of the initial offering price to the public of each Series of Bonds and any Parity Debt of the Electric System to be secured by the Parity Reserve Fund as determined under the Internal Revenue Code of 1986, as amended, (b) the Maximum Annual Debt Service on all Bonds and Parity Debt of the Electric System to be secured by the Parity Reserve Fund, or (c) 125% of the Average Annual Debt Service on all Bonds and Parity Debt of the Electric System to be secured by the Parity Reserve Fund, all as computed and determined by the City and specified in writing to the Trustee. Within the Parity Reserve Fund, there will be established a “2010A Bond Reserve Subaccount” and a “2010B Bond Reserve Subaccount.” See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS – Reserve Fund” and “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

***Reserve Fund Requirement on and after the Transition Date.*** On the first date on which the 1998 Bonds, the 2001 Bonds and the 2002 Bonds have been paid or discharged in accordance with their respective terms and are no longer Outstanding for purposes of the Indenture (the “Transition Date”), the Reserve Fund Requirement will mean, as of any date of calculation, (i) with respect to the Parity Reserve Fund, an amount equal to one-half of the greatest amount of principal and interest becoming due and payable on all Outstanding Participating Bonds in the then current or any future Fiscal Year, net of any expected Federal Subsidy (as defined hereafter), and (ii) with respect to any Series Reserve Fund for a Series of Future Bonds that do not constitute Participating Bonds, the reserve fund requirement (which reserve fund requirement may be zero (\$0)), specified for such Series of Future Bonds in a Supplemental Indenture setting forth the terms of such Future Bonds, all as computed and determined by the City and specified in writing to the Trustee. “Future Bonds” means all Bonds issued after the Transition Date. “Participating Bonds” means all Bonds Outstanding as of the Transition Date and all Future Bonds other than Future Bonds which are designated by the City as Bonds that will not constitute Participating Bonds under the Indenture, including as amended by the Fourth Supplemental Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS – Reserve Fund” and “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

## **Designation of Series 2010B Bonds as “build America bonds”**

The City expects to designate the Series 2010B Bonds as “build America bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “Stimulus Act”), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive a cash subsidy from the United States Treasury (“Federal Subsidy”) equal to 35% of the interest payable on the Series 2010B Bonds. The City has not undertaken or made any covenant for the benefit of the Owners of the Series 2010B Bonds to comply with any conditions to receive the cash subsidy or to maintain the City’s right to retain or receive

future subsidy payments in respect of the Series 2010B Bonds. The City is obligated to make all payments of principal of and interest on the Series 2010B Bonds from the sources described herein whether or not it receives cash subsidy payments pursuant to the Stimulus Act. Any cash subsidy payments will constitute Electric Revenues under the Indenture prior to the Transition Date. See “DESCRIPTION OF THE 2010 BONDS – Designation of Series 2010B Bonds as Qualified “build America bonds.”” See “AMENDMENTS TO THE INDENTURE.”

### **Continuing Disclosure**

The City will covenant in the Continuing Disclosure Agreement for the benefit of the Owners and beneficial owners of the 2010 Bonds to provide certain financial information and operating data relating to the Electric System and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” and “APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT.”

### **Summaries and References to Documents**

Brief descriptions or summaries of the 2010 Bonds, the security and sources of payment therefor, the Enterprise (including the Electric System), the Indenture and certain other documents are included in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2010 Bonds, the Prior Bonds, the Indenture, the Continuing Disclosure Agreement and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at 275 East Olive Avenue, Burbank, California 91502, telephone: (818) 238-5851. All references to contracts, indentures and other agreements are qualified in their entirety by reference to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights and possible exercise of judicial discretion in exercising such rights. Financial and statistical information set forth herein, except for the audited financial statements included in APPENDIX B, is unaudited. The source of all such information is from the City unless otherwise stated. Terms not defined herein have the meanings as set forth in the respective documents.

## **DESCRIPTION OF THE 2010 BONDS**

### **General**

The 2010 Bonds will be dated their date of delivery, and will bear interest from their date at the rates per annum set forth on the inside cover page of this Official Statement, payable on December 1, 2010 and semiannually thereafter on June 1 and December 1 of each year. The 2010 Bonds will mature on June 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The 2010 Bonds will be issued as fully registered bonds in denominations of \$5,000 principal amount or any integral multiples thereof. Principal of and interest and premium, if any, on each 2010 Bond is to be paid to purchasers by The Depository Trust Company, New York, New York (“DTC”) through the DTC Direct Participants (as described herein). See “BOOK-ENTRY SYSTEM.”

### **Designation of Series 2010B Bonds as Qualified “build America bonds”**

The City is issuing the Series 2010B Bonds as taxable bonds, and expects to designate the Series 2010B Bonds as “build America bonds” under section 54AA(d) of the Internal Revenue Code (the “Code”), and as “qualified build America bonds” (Direct Subsidy) under section 54AA(g) of the Code. In connection with the issuance of the Series 2010B Bonds, and as permitted by the Stimulus Act, the City will elect (which election is irrevocable pursuant to the provisions of the Stimulus Act) to receive directly

from the United States Department of the Treasury on or about each interest payment date for the Series 2010B Bonds a Federal Subsidy payment equal to 35% of the taxable interest it pays on the Series 2010B Bonds to the holders thereof. The Federal Subsidy payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the Stimulus Act. Any Federal Subsidy payments received by the City will constitute Electric Revenues as defined in the Indenture prior to the Transition Date. See “AMENDMENTS TO THE INDENTURE.” If the City fails to comply with the conditions to receiving the Federal Subsidy payments throughout the term of the Series 2010B Bonds, it may no longer receive the Federal Subsidy payments and could be subject to a claim for the return of previously received Federal Subsidy payments. The City has not undertaken or made any covenant for the benefit of the Owners of the Series 2010B Bonds to comply with any conditions to receive the Federal Subsidy payments or to maintain the City’s right to retain or receive future Federal Subsidy payments in respect of the Series 2010B Bonds. The City is obligated to make all payments of principal of and interest on the Series 2010B Bonds whether or not it receives Federal Subsidy payments pursuant to the Stimulus Act.

## **Redemption**

### **Series 2010A Bonds**

***Optional Redemption.*** The Series 2010A Bonds maturing on or before June 1, 2020 are not subject to optional redemption prior to maturity. The Series 2010A Bonds maturing on or after June 1, 2021 are subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after June 1, 2020, at a redemption price equal to 100% of the principal amount of the Series 2010A Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

***Selection of Series 2010A Bonds for Redemption.*** If less than all of the Series 2010A Bonds are to be redeemed, the maturities of the Series 2010A Bonds to be redeemed shall be selected by the City. If less than all of the 2010 Bonds of any maturity are to be redeemed, the Trustee shall select the Series 2010A Bonds to be redeemed, from all Series 2010A Bonds of the respective maturity not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee will promptly notify the City in writing of the Series 2010A Bonds so selected for redemption.

### **Series 2010B Bonds**

***Optional Redemption.*** The Series 2010B Bonds are subject to redemption prior to their stated maturities, at the option of the City, from any source of available funds, as a whole or in part, at any time, at the Make-Whole Redemption Price.

“Make-Whole Redemption Price” means, for each maturity of the Series 2010B Bonds, the greater of (i) 100% of the principal amount of the Series 2010B Bond of such maturity to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Series 2010B Bonds of such maturity to be redeemed to the maturity date of such Series 2010B Bonds, discounted to the date on which the Series 2010B Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus twenty-five (25) basis points with respect to the Series 2010B Bonds maturing on June 1, 2030 and plus thirty (30) basis points with respect to the Series 2010B Bonds maturing on June 1, 2040, plus accrued interest on the Series 2010B Bonds of each such maturity to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date of any maturity of the Series 2010B Bonds, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Series 2010B Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Series 2010B Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2010B Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Series 2010B Bond:

(i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2010B Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.

“Reference Treasury Dealer” means each of four firms, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

“Valuation Date” means at least two Business Days, but not more than 45 calendar days, preceding the redemption date.

***Extraordinary Optional Redemption.*** The Series 2010B Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the City, upon the occurrence of an Extraordinary Event, from any source of available funds, as a whole or in part (and, if in part, in such order of maturity as the City shall direct), at any time, at the Extraordinary Optional Redemption Price.

An “Extraordinary Event” will have occurred if the City determines that a material adverse change has occurred to section 54AA or section 6431 of the Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other

determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the City to satisfy the requirements to receive the 35% cash subsidy payments from the United States Treasury with respect to the Series 2010B Bonds, pursuant to which the 35% cash subsidy payments from the United States Treasury with respect to the Series 2010B Bonds are reduced or eliminated.

“Extraordinary Optional Redemption Price” means, for each maturity of the Series 2010B Bonds, the greater of (i) the issue price of the Series 2010B Bonds of such maturity as determined in accordance with the Code (but not less than 100% of the principal amount of the Series 2010B Bonds of such maturity to be redeemed) or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Series 2010B Bonds of such maturity to be redeemed to the maturity date of such Series 2010B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010B Bonds of such maturity are to be redeemed, discounted to the date on which the Series 2010B Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus one hundred (100) basis points, plus accrued interest on the Series 2010B Bonds of such maturity to be redeemed to the redemption date.

***Mandatory Sinking Fund Redemption.*** The Series 2010B Bonds maturing on June 1, 2030 shall also be subject to redemption prior to their stated maturity, in part, from mandatory sinking fund payments as specified below, commencing on June 1, 2024, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption without premium.

Term Series 2010B Bonds Due June 1, 2030

Mandatory Sinking Fund Payment Dates (June 1)	Mandatory <u>Sinking Fund Payments</u>
2024	\$2,210,000
2025	2,295,000
2026	2,390,000
2027	2,485,000
2028	2,585,000
2029	2,690,000
2030†	2,800,000

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† Final Maturity.

The Series 2010B Bonds maturing on June 1, 2040 shall also be subject to redemption prior to their stated maturity, in part, from mandatory sinking fund payments as specified below, commencing on June 1, 2031, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption without premium.

Term Series 2010B Bonds Due June 1, 2040

Mandatory Sinking Fund Payment Dates (June 1)	Mandatory <u>Sinking Fund Payments</u>
2031	\$2,915,000
2032	3,035,000
2033	3,160,000
2034	3,290,000
2035	3,430,000
2036	3,570,000
2037	3,715,000
2038	3,870,000
2039	4,030,000
2040†	4,195,000

† Final Maturity.

***Selection of Series 2010B Bonds for Redemption.*** Whenever provision is made for the redemption of less than all of the Series 2010B Bonds, the maturities of the Series 2010B Bonds to be redeemed shall be specified by the City. In the case of partial redemption of less than all of the Series 2010B Bonds of any maturity, then if the Series 2010B Bonds are in book-entry form at the time of such redemption, the Trustee shall instruct the Securities Depository to instruct the Securities Depository Participants to select the Series 2010B Bonds of such maturity to be redeemed from the Series 2010B Bonds of such maturity owned by each Beneficial Owner pro rata on the basis of the principal amount of Series 2010B Bonds owned. The process for selecting Series 2010B Bonds that are in book-entry form for redemption is contrary to DTC’s usual practice (See “BOOK-ENTRY SYSTEM”), and neither the City nor the Trustee shall have any responsibility to ensure that the Securities Depository or the Securities Depository Participants properly select such Series 2010B Bonds for redemption in such manner. If the Series 2010B Bonds are not in book-entry form at the time of redemption, on each redemption date the Trustee shall select the specific Series 2010B Bonds of such maturity for redemption from such Series 2010B Bonds owned by each Beneficial Owner pro rata on the basis of the principal amount of such Series 2010B Bonds owned. To the extent practicable, the principal amounts of any registered Series 2010B Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, provided that nothing shall prevent the principal amount of any Series 2010B Bond from being reduced below \$5,000 if necessary to implement a pro rata reduction. The Trustee will promptly notify the City in writing of the Series 2010B Bonds so selected for redemption.

**Notice of Redemption of 2010 Bonds**

The City shall notify the Trustee at least forty-five (45) days prior to the redemption date for 2010 Bonds pursuant to the Indenture (or such shorter time as may be agreed to by the Trustee). Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any 2010 Bonds designated for redemption at their

addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository by facsimile or other electronic means of communications and by first-class mail, and (iii) to the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, at [www.emma.msrb.org](http://www.emma.msrb.org), by electronic means of communication, or to such other securities depositories or information services as the City may designate in a Request of the City delivered to the Trustee. Notice of redemption shall be given in the form and otherwise in accordance with the terms of the Indenture.

The City has the right to rescind any notice of the optional redemption of any 2010 Bonds by written notice to the Trustee on or prior to the dated fixed for such redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2010 Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee shall provide notice of rescission of redemption in the same manner as the original notice of redemption was provided.

### **Effect of Redemption of 2010 Bonds**

Notice of redemption having been given as provided in the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the 2010 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2010 Bonds (or portions thereof) so called for redemption will become due and payable at the redemption price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the 2010 Bonds so called for redemption will cease to accrue, such 2010 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of such 2010 Bonds will have no rights in respect thereof except to receive payment of such redemption price and accrued interest.

### **BOOK-ENTRY SYSTEM**

*The following description concerning DTC and DTC’s book-entry system is based solely on information furnished by DTC. No representation is made herein by the City or the Underwriters as to the accuracy or completeness of such information.*

#### **General**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2010 Bonds. The 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the 2010 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the

post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). The information set forth on these websites is not incorporated by reference herein.

Purchases of 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2010 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Bonds, except in the event that use of the book-entry system for the 2010 Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2010 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2010 Bonds at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2010 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

#### **Discontinuation of the Book-Entry System**

If DTC determines not to continue to act as securities depository by giving notice to the City and the Trustee, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the 2010 Bonds that they be able to obtain certificates, the Trustee will execute, transfer and exchange 2010 Bonds as requested by DTC and will deliver new 2010 Bonds in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the 2010 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee. The interest on 2010 Bonds will be payable by check mailed to the respective Owners thereof at their addresses as they appear on the books maintained by the Trustee.

Any 2010 Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Indenture, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2010 Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The 2010 Bonds may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of 2010 Bonds of other authorized denominations of the same series, tenor, maturity and interest rate by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2010 Bond for cancellation; provided that no transfer or exchange may occur during the period established by the Trustee for selection of 2010 Bonds for redemption, or of any 2010 Bond or portion of a 2010 Bond so selected for redemption. The Trustee shall require the Bondholder requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS**

The following discussion describes the security and sources of payment of the 2010 Bonds. For a summary of the terms of the Indenture, see “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

### **Pledge of Electric Net Revenues**

Pursuant to the Indenture, the City has irrevocably pledged to the payment of the principal or redemption price of and interest on the Bonds, including the 2010 Bonds and all Parity Debt, all Electric Net Revenues and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund) subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. “Parity Debt” of the Electric System means any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money or interest rate swap agreement having an equal lien and charge upon the Electric Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are outstanding). “Electric Net Revenues” means the amount of Electric Revenues of the Electric System remaining after the payment therefrom of the Electric Operating Expenses.

“Electric Revenues” means all revenues (as defined in Section 54315 of the Government Code, which include all charges received for and all other income and receipts derived by Burbank Water and Power from the operation of the Electric System or arising from the Electric System) received by Burbank Water and Power from the services, facilities, energy and distribution of electric energy by Burbank Water and Power, including income from investments, but excepting therefrom (a) all reimbursement charges and deposits to secure service and (b) any charges collected by any person to amortize, or otherwise relating to the payment of, the uneconomic portion of costs associated with assets and obligations (“stranded costs”) of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds or any Parity Debt then outstanding, the payments of which obligations will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City.

On the Transition Date, the definition of “Electric Revenues” will be amended to add the following to the end of such definition: “, and (c) any Federal Subsidy, if elected by the City; provided, that such subsidy is not excluded from the definition of Debt Service pursuant to paragraph (g) of that definition.” See “AMENDMENTS TO THE INDENTURE.”

“Electric Operating Expenses” means the amount required to pay the expenses of management, repair and other costs necessary to operate, maintain and preserve the Electric System in good repair and working order, including but not limited to, the cost of supply and transmission of electric energy under long-term contracts or otherwise and the expenses of conducting the Electric System, but excluding depreciation. “Electric Operating Expenses” shall include all amounts required to be paid by the City under contract with a joint powers agency for purchase of capacity, energy, transmission capability or any other commodities or services in connection with the foregoing, which contract requires payments by the City to be made thereunder to be treated as Electric Operating Expenses.

### **2010 Bonds are Limited Obligations**

**The Bonds (including the 2010 Bonds) are special, limited obligations of the City. The 2010 Bonds shall not be deemed to constitute a debt or liability of the City, the State or of any political**

**subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State or of any political subdivision thereof, but shall be payable, except to the extent of certain available moneys pledged therefor, solely from Electric Net Revenues. Neither the faith and credit nor the taxing power of the City, the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the 2010 Bonds. The issuance of the 2010 Bonds shall not directly or indirectly or contingently obligate the City, the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.**

The Bonds (including the 2010 Bonds) are not payable from or secured by the revenues of the Water System.

### **Rate Covenant**

The City covenants, pursuant to the Indenture, that it shall prescribe, revise and collect such charges for the services, facilities and electricity furnished by the Electric System which, after making allowances for contingencies and error in the estimates, shall provide Electric Net Revenues at least sufficient to pay the following amounts in the order set forth:

- (1) The interest on, and principal and Redemption Price of, the outstanding Bonds and any Parity Debt of the Electric System as the same shall become due and payable;
- (2) All payments required for compliance with the Indenture, including payments required to be made into any bond reserve fund for the Bonds; and
- (3) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Electric Net Revenues;

and the charges shall be fixed so that in each Fiscal Year (i) the Electric Net Revenues shall be at least equal to 1.00 times the amount required to pay the items specified in clauses (1), (2) and (3) above, and (ii) the Adjusted Electric Net Revenues shall be at least equal to 1.20 times the amount of Annual Debt Service for such Fiscal Year. Moneys on deposit in any unrestricted funds are not pledged for the benefit of the owners of the Bonds. "Adjusted Electric Net Revenues" means the Electric Net Revenues plus, for purposes of determining compliance with the rate covenant only, other lawfully available funds of the City budgeted by the City for the payment of Electric Operating Expenses or Debt Service on the Bonds and/or any Parity Debt of the Electric System during such fiscal year.

There can be no assurance that the Electric Net Revenues will remain at the levels described in this Official Statement. Increases in fuel and energy costs, new environmental laws and regulations or other expenses would reduce the Electric Net Revenues and could require further substantial increases in rates or charges. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

ALTHOUGH THE CITY HAS COVENANTED TO PRESCRIBE, REVISE AND COLLECT RATES AND CHARGES FOR THE ELECTRIC SYSTEM AT CERTAIN LEVELS, THERE CAN BE NO ASSURANCE THAT SUCH AMOUNTS WILL BE COLLECTED IN THE AMOUNTS AND AT THE TIME NECESSARY TO MAKE TIMELY PAYMENTS WITH RESPECT TO THE 2010 BONDS.

## Reserve Fund

***Parity Reserve Fund Prior to the Transition Date.*** The Parity Reserve Fund for the Bonds is established pursuant to the Indenture to be held and maintained by the Trustee. The amount of \$2,276,150.26 will be released from the Parity Reserve Fund when the 2010A Bonds are issued in connection with the refunding of the Refunded Bonds (defined below). Upon the issuance of the Series 2010B Bonds, there will be deposited into the Parity Reserve Fund the amount of \$2,053,114.03 from the proceeds of the Series 2010B Bonds. After giving effect to the refunding of the Refunded Bonds and the issuance of the 2010 Bonds, the balance on deposit in the Parity Reserve Fund will be equal to the Reserve Fund Requirement for the Bonds (\$8,843,052.08). “Reserve Fund Requirement” is defined in the Indenture to mean, prior to the Transition Date, as of any date of determination and excluding any Parity Debt for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the least of (a) ten percent of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Internal Revenue Code of 1986, as amended, (b) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (c) 125% of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, all as computed and determined by the City and specified in writing to the Trustee. After the Transition Date, the Parity Reserve Fund will only secure Participating Bonds. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Parity Reserve Fund Prior to the Transition Date.”

Amounts on deposit in the Parity Reserve Fund for the Bonds are pledged to the payment of the Bonds (including the 2010 Bonds) and any Parity Debt to be secured by such Parity Reserve Fund and will be applied only for such purposes as permitted in the Indenture. The Trustee will deposit in such Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in such Parity Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by the Indenture to be on deposit therein.

Whenever the amount on deposit in such Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof will be provided to the insurer of the Bonds, if any, and such amount will be increased by the City to the Reserve Fund Requirement as provided for in the Indenture not later than 12 months thereafter. Moneys on deposit in such Parity Reserve Fund (including all amounts that may be obtained from letters of credit, surety bonds and insurance policies on deposit in such Parity Reserve Fund) will be transferred by the Trustee to the Debt Service Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from such amounts on deposit in such Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by such Parity Reserve Fund, without preference or priority between transfers made pursuant to the Indenture, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by such Parity Reserve Fund is issued or incurred.

Prior to the Transition Date, the City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody’s and Standard & Poor’s or a surety bond or an insurance policy issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company’s insurance policies) are rated in one of the two highest Rating Categories of Moody’s and Standard & Poor’s and otherwise satisfying the requirements of the Indenture.

***Reserve Fund Requirement after the Transition Date.*** On and after the Transition Date, the Reserve Fund Requirement will mean, as of any date of calculation, (i) with respect to the Parity Reserve Fund, an amount equal to one-half of the greatest amount of principal and interest becoming due and payable on all Outstanding Participating Bonds in the then current or any future Fiscal Year, net of any expected Federal Subsidy, and (ii) with respect to any Series Reserve Fund for a Series of Future Bonds that do not constitute Participating Bonds, the reserve fund requirement (which reserve fund requirement may be zero (\$0)), specified for such Series of Future Bonds in a Supplemental Indenture setting forth the terms of such Future Bonds, all as computed and determined by the City and specified in writing to the Trustee. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Parity Reserve Fund and Series Reserve Funds After Transition Date.”

Under the Indenture, each additional Series of Bonds which are Future Bonds shall constitute Participating Bonds unless the Supplemental Indenture authorizing such Series of Future Bonds provides that such Series of Future Bonds shall not be Participating Bonds and, if such Series of Future Bonds shall not be Participating Bonds, provides for the establishment of a Series Reserve Fund for such Series of Future Bonds, provides for the pledge of amounts on deposit in such Series Reserve Fund to the payment of such Series of Future Bonds secured thereby, and establishes the Reserve Fund Requirement for such Series Reserve Fund.

On and after the Transition Date, the City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody’s and Standard & Poor’s at the time such letter of credit is issued or a surety bond or an insurance policy issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company’s insurance policies) are rated in one of the two highest Rating Categories of Moody’s and Standard & Poor’s at the time such surety bond or insurance policy is issued and otherwise satisfying the requirements of the Indenture.

***Parity Reserve Subaccounts.*** Within the Parity Reserve Fund there is established the Series 2010A Bond Reserve Subaccount and the Series 2010B Bond Reserve Subaccount. Amounts on deposit in the respective subaccounts will be applied in accordance with the Indenture. For purposes of accounting for any withdrawal from the Parity Reserve Fund for transfer to the Debt Service Fund pursuant to the Indenture in the event of a deficiency in the Debt Service Fund, the total amount of any such withdrawal from the Parity Reserve Fund shall be allocated ratably among the Series 2010A Bond Reserve Subaccount, the Series 2010B Bond Reserve Subaccount, any other bond reserve subaccount hereafter established in the Parity Reserve Fund and the balance of the Parity Reserve Fund. For purposes of accounting for any deposit to the Parity Reserve Fund pursuant to the Indenture to provide for the replenishment of the Parity Reserve Fund, the total amount of such deposit shall be allocated among the Series 2010A Bond Reserve Subaccount, the Series 2010B Bond Reserve Subaccount, any other bond reserve subaccount hereafter established in the Parity Reserve Fund and the balance of the Parity Reserve Fund pro rata based on the amount of any prior withdrawal or deficiency therein.

#### **Allocation of Electric Net Revenues Under the Indenture**

Pursuant to the Indenture, as long as any Bonds are outstanding or any Parity Debt remains unpaid, the City will deposit in a trust fund, designated as the “Electric Revenue Fund,” which fund the City shall establish and maintain, all Electric Net Revenues, when and as received by the City.

Prior to the Transition Date, as soon as practicable in each month after the deposit of Electric Net Revenues into the Electric Revenue Fund, but in any case no later than the last Business Day of such month, the City shall withdraw from the Electric Revenue Fund and pay to the Trustee for deposit (a) in

the Debt Service Fund, the amount, if any, required so that the balance in said fund, including any subaccounts therein, to the extent moneys in such subaccounts are available to pay Accrued Aggregate Debt Service (as defined in APPENDIX C hereto) as of the last day of the then current month, shall equal the Accrued Aggregate Debt Service as of the last day of the then current month; and (b) in the Parity Reserve Fund, the amount, if any, required so that the amount credited to such fund shall be at least equal to the Reserve Fund Requirement as of the last day of the then current month; provided, that on a parity with such deposits, the City shall set aside or transfer amounts to the appropriate accounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt).

On and after the Transition Date, as soon as practicable in each month after the deposit of Electric Net Revenues into the Electric Revenue Fund, but in any case no later than the last Business Day of such month, the City shall withdraw from the Electric Revenue Fund and pay to the Trustee for deposit (a) in the Debt Service Fund, the amount, if any, required so that the balance in said fund, including any subaccounts therein, to the extent moneys in such subaccounts are available to pay Accrued Aggregate Debt Service (as defined in APPENDIX C hereto) as of the last day of the then current month, shall equal the Accrued Aggregate Debt Service as of the last day of the then current month; provided that for purposes of this (a) only, the calculation of accrued Debt Service with respect to the definition of Accrued Aggregate Debt Service will be made without regard to the new paragraph (g) (described below under the caption “AMENDMENTS TO THE INDENTURE”) of the definition of Debt Service; and (b) in the Parity Reserve Fund and in each Series Reserve Fund, if any, required so that the amount credited to such Parity Reserve Fund and each such Series Reserve Fund shall, except as otherwise provided in the Indenture, be at least equal to the Reserve Requirement, as of the last day of the then current month; provided, that the deposits to the Parity Reserve Fund and each Series Reserve Fund shall be made without preference or priority between such deposits and in the event of any deficiency in Electric Net Revenues to make the deposits required by this (b), such Electric Net Revenues shall be deposited into the Parity Reserve Fund and each Series Reserve Fund ratably based on the amount required to be deposited in each such fund, without discrimination or preference.

For further information regarding the allocation of revenues with respect to the Bonds, see “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Pledge of Electric Net Revenues; Electric Revenue Fund.”

### **Additional Bonds or Parity Debt**

The City has previously issued certain bonds the debt service of which was payable prior to the debt service on the Bonds (the “Senior Bonds”). Upon the issuance of the 2001 Bonds, all of the outstanding Senior Bonds were discharged in accordance with their terms. The City covenants pursuant to the Indenture that it will not issue any additional Senior Bonds. The City also covenants that it will not create any pledge, lien or charge upon any of the Electric Net Revenues having priority over the lien of the Bonds; provided, however, that nothing in the Indenture shall be construed to limit the ability of the City to issue or incur obligations secured by charges, not constituting Electric Net Revenues, collected by any person to amortize or otherwise relating to the payment of the “stranded costs” of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds, the payments of which charges will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City.

The Indenture permits the issuance of additional Bonds or Parity Debt upon the satisfaction of certain conditions precedent to the issuance of such additional Bonds or Parity Debt, including the delivery to the Trustee of a Certificate of the City certifying that the sum of: (1) the Electric Net Revenues; plus (2) 90 percent of the amount by which the City projects Electric Net Revenues for any period of 12 consecutive months during the 18 months immediately preceding the date on which any additional Bonds or Parity Debt will become outstanding would have been increased had increases in rates, fees and charges during such period of 12 months been in effect throughout such period of 12 months; plus (3) 75 percent of the amount by which the City projects Electric Net Revenues will increase during the period of 12 months commencing on the date of issuance of such additional Bonds or Parity Debt due to improvements to the Electric System under construction (financed from any source) or to be financed with the proceeds of such additional Bonds, shall (4) have been at least equal to 1.20 times the amount of Maximum Annual Debt Service on all Bonds and Parity Debt then outstanding and the additional Bonds or Parity Debt then proposed to be issued.

### **Limitations on Remedies**

The enforceability of the rights and remedies of the owners of the 2010 Bonds and the Trustee, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the 2010 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Electric System serves an essential public purpose.

### **AMENDMENTS TO THE INDENTURE**

The Fourth Supplemental Indenture contains a number of amendments to the Indenture that will become effective on the Transition Date, including among others, the following:

The following new definitions are added after the Transition Date by the Fourth Supplemental Indenture:

“Future Bonds” means all Bonds issued after the Transition Date.

“Participating Bonds” means all Bonds Outstanding as of the Transition Date and all Future Bonds other than Future Bonds which are designated by the City as Bonds that will not constitute Participating Bonds.

The term “Debt Service” is amended by the Fourth Supplemental Indenture to include the following new paragraph (g):

“(g) if interest on any Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code, or any future similar program (a “Federal Subsidy”), then interest payments with respect to such Bonds or

Parity Debt may be reduced by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America at the election of the City.”

The term “Electric Revenues” is amended and restated by the Fourth Supplemental Indenture as follows:

“Electric Revenues” means, on and after the Transition Date, all revenues (as defined in Section 54315 of the Government Code, which include all charges received for and all other income and receipts derived by the Department from the operation of the Electric System or arising from the Electric System) received by the Department from the services, facilities, energy and distribution of electric energy by the Department, including income from investments, but excepting therefrom (a) all reimbursement charges and deposits to secure service, (b) any charges collected by any person to amortize, or otherwise relating to the payment of, the uneconomic portion of costs associated with assets and obligations (“stranded costs”) of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds or any Parity Debt then outstanding, the payments of which obligations will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City, and (c) any Federal Subsidy, if elected by the City; provided, that such subsidy is not excluded from the definition of Debt Service pursuant to paragraph (g) of that definition.

In addition, the Fourth Supplemental Indenture includes amendments to the Indenture which will become effective on the Transition Date that relate to the debt service reserves established for the 2010 Bonds and future Series of Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS – Reserve Fund” and “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

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## ESTIMATED SOURCE AND USES OF FUNDS

The estimated sources and uses of funds relating to the 2010 Bonds are shown below:

Sources:	Series 2010A <u>Bonds</u>	Series 2010B <u>Bonds</u>	<u>Total</u>
Principal Amount	\$35,825,000	\$52,665,000	\$88,490,000
Original Issue Premium	4,194,374	--	4,194,374
Debt Service Fund Release	4,230,851	--	4,230,851
Parity Reserve Fund Release	<u>2,276,150</u>	<u>--</u>	<u>2,276,150</u>
Total Sources	\$46,526,375	\$52,665,000	\$99,191,375
Uses:			
Deposit to Series 2010B Electric System Fund	--	\$50,000,000	\$50,000,000
Deposit to Parity Reserve Fund <sup>(1)</sup>	--	2,053,114	2,053,114
Deposit to Escrow Funds	\$46,200,832	--	46,200,832
Deposit to Series 2010A Costs of Issuance Fund <sup>(2)</sup>	325,543	--	325,543
Deposit to Series 2010B Costs of Issuance Fund <sup>(2)</sup>	<u>--</u>	<u>611,886</u>	<u>611,886</u>
Total Uses	\$46,526,375	\$52,665,000	\$99,191,375

<sup>(1)</sup> The amount required so that the amount on deposit or credited to the Parity Reserve Fund, including the subaccounts for the Series 2010A Bonds and the Series 2010B Bonds therein, will equal the Reserve Fund Requirement on the Bonds outstanding.

<sup>(2)</sup> Includes underwriters' discount, legal fees, financial advisory fees, Trustee's fees, verification agent fees, printing costs, rating agencies' fees and other costs incurred or to be incurred in connection with the issuance of the Series 2010A Bonds and Series 2010B Bonds, as applicable.

### PLAN OF REFUNDING

On June 1, 2010, a portion of the proceeds of the Series 2010A Bonds and, together with certain other moneys, will be applied to redeem \$36,520,000 of the outstanding principal amount of the 1998 Bonds maturing on June 1, 2016 and on June 1, 2023 (the "1998 Refunded Bonds"), at a redemption price of 100% of the principal amount thereof plus accrued interest thereon. On April 30, 2010, a portion of the proceeds of the Series 2010A Bonds and, together with certain other moneys, will be applied to redeem \$8,660,000 of the outstanding principal amount of the 2001 Bonds maturing on June 1, 2010 and on June 1, 2011 (the "2001 Refunded Bonds" and, together with the 1998 Refunded Bonds, the "Refunded Bonds"), at a redemption price of 100% of the principal amount thereof plus accrued interest thereon.

Pursuant to the terms of the Indenture, the refunding of the 1998 Refunded Bonds that are Refunded Bonds will be effected by depositing a portion of the proceeds of the Series 2010A Bonds, together with certain other moneys, into the escrow fund (the "1998 Escrow Fund") created and established pursuant to the Escrow Agreement (1998 Refunded Bonds), dated as of March 1, 2010 (the "Escrow Agreement (1998 Refunded Bonds)"), by and between the City and Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"). Pursuant to the terms of the Indenture, the refunding of the 2001 Refunded Bonds will be effected by depositing a portion of the proceeds of the Series 2010A Bonds, together with certain other moneys, into the escrow fund (the "2001 Escrow Fund") created and established pursuant to the Escrow Agreement (2001 Refunded Bonds), dated as of March 1, 2010 (the "Escrow Agreement (2001 Refunded Bonds)" and, together with the Escrow Agreement (1998 Refunded Bonds), the "Escrow Agreements"), by and between the City and the Escrow Agent.

The proceeds deposited in the respective Escrow Funds will be used to purchase United States Treasury notes, bonds, bills, certificates of indebtedness, or other obligations for which the full faith and credit of the United States of America are pledged for the payment of principal and interest thereon (the “Defeasance Securities”). The Defeasance Securities will bear interest at such rates and will mature at such times and in such amounts so that, when paid in accordance with their terms, they will provide sufficient moneys, together with other amounts held in cash in the Escrow Funds, to pay the respective redemption prices (including accrued interest) of the Refunded Bonds on the respective redemption dates. The Escrow Funds will be held by the Escrow Agent in irrevocable trust and will be used solely for the payment of the redemption price (including accrued interest) of the applicable Refunded Bonds, subject only to the transfer to the City of any amount not required for such purpose.

The refunding of the Refunded Bonds will discharge the pledge securing the Refunded Bonds, other than the pledge of amounts in the Escrow Funds, and the Refunded Bonds will no longer be considered outstanding under the Indenture.

The accuracy of the mathematical computations of the adequacy of the principal and interest on the Defeasance Securities, together with amounts held as cash in the respective Escrow Funds, to provide for the payment of the redemption price (including accrued interest) of the Refunded Bonds will be verified at the time of delivery of the Series 2010A Bonds by a firm of independent arbitrage consultants. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

### **THE 2010 ELECTRIC PROJECT**

A portion of the proceeds of the Series 2010B Bonds is expected to be used to finance a portion of the costs to improve the load carrying capability of the Electric System and improve electrical service reliability. Such capital expenditures include (i) the conversion of certain residential and commercial distribution circuits to 12kV, (ii) the construction of a new 12kV distribution substation, and (iii) the implementation of distribution automation projects. See “THE ELECTRIC SYSTEM – Capital Improvements.”

### **ELECTRIC SYSTEM DEBT SERVICE REQUIREMENTS**

The debt service requirements with respect to the Bonds are set forth in APPENDIX F hereto. See “APPENDIX F – ELECTRIC SYSTEM DEBT SERVICE REQUIREMENTS.”

### **BURBANK WATER AND POWER**

#### **Senior Management of Burbank Water and Power**

BWP is under the direct management of the BWP General Manager, subject to the policy and direction of the City Council and the Burbank Water and Power Board (the “BWP Board”) and the broad administrative direction of the City Manager. The BWP General Manager is responsible for policy and planning relating to the operation of the Electric and Water Systems. Legal services are provided by the City Attorney’s office, and various administrative services are also provided by the City. Senior management of the Electric System are as follows:

**Ronald E. Davis**, BWP General Manager, holds a Bachelor of Arts degree in business and professional accounting from Eastern Washington University. He also is a graduate of the U.S. Navy Nuclear Program. He began his professional career with Washington Water Power Company in Spokane, Washington, moving through various positions from Construction Auditor to General Manager of Accounting to Controller to Director of Marketing and Sales. Prior to working at Puget Sound Energy,

where he was Vice-President in charge of regulation, strategic and marketing planning, Mr. Davis was Vice-President of Planning and Regulation at Washington Energy Company. He has served as BWP General Manager since 1999 and is the current President of the California Municipal Utilities Association – a statewide association of community owned public utilities. He is also the Past President of the Southern California Public Power Authority (“SCPPA”) for the calendar years 2003 and 2004.

*Xavier G. Baldwin*, Interim Assistant General Manager/Power, holds a Bachelor of Science Degree in Electrical Engineering from Santa Clara University and a Certificate in Electric Power Systems from University of California, Los Angeles (UCLA). He has been in the electric utility industry for over 43 years, including 39 years in the municipal utility field. He previously held the positions of Senior Electrical Engineer for four years and Principal Electrical Engineer for 35 years at BWP. His primary focus at BWP has been in the areas of system planning, supervisory control and data acquisition, and system operations. Mr. Baldwin is a registered electrical engineer in the state of California and a Life Member of the Institute of Electrical and Electronics Engineers or IEEE.

*Jorge C. Somoano*, Assistant General Manager/ Electrical Distribution, holds a Bachelor of Science degree in Electrical Engineering from the California State Polytechnic University, Pomona and a Masters in Business Administration from Woodbury University. He has been in the municipal utility field for 25 years, holding significant positions with the City of Vernon Light and Power Department and Riverside Public Utilities. His previous experience includes managing conservation programs, rates, resource procurement and planning, and engineering. Mr. Somoano joined BWP on November 2, 2009.

*Bob Liu*, Chief Financial Officer, holds a Bachelor of Science degree in Finance and a Master of Business Administration from Utah State University. Prior to joining BWP, he worked for the California Power Exchange initially in the Settlements Department and then in the Finance Department. At BWP, he held the positions of Financial Analyst and Financial Planning and Risk Manager before his current CFO position. His primary focus at BWP has been in the areas of financial reporting, budgeting, financial planning, and energy risk management.

### **Burbank Water and Power Board**

The BWP Board consists of seven members appointed by the City Council. As set forth in the Burbank Municipal Code, the BWP Board has the following powers and duties:

- (1) To review and make recommendations on all capital improvements which require City Council’s approval;
- (2) To review and make recommendations on purchase power agreements with terms of more than two years;
- (3) To review and make recommendations on BWP’s annual budget;
- (4) To review and make recommendations on electric and water rate changes;
- (5) To approve all contract awards for goods, services and public works construction projects which are provided for in BWP’s annual budget; and
- (6) To perform advisory functions as delegated to it by the provisions of the Burbank Municipal Code or other actions of the City Council or BWP General Manager.

The present members of BWP Board and their terms of appointment are as follows:

<u>Name</u>	<u>Position</u>	<u>Term Expires June 1,</u>	<u>Profession</u>
Lee Dunayer	Chairperson	2011	Financial Advisor, UBS Financial Services Inc.
Robert Olson	Vice-Chairperson	2013	Media Consultant, Bob Olson Media Group
Martin Adams	Member	2013	Director of Water Quality, LADWP
Thomas Jamentz	Member	2013	Retired, LADWP
Wendy James	Member	2011	President/Owner, Better World Group
Lynn Kronzek	Member	2011	Principal/Consultant, Lynn Kronzek & Associates
Rod Kurihara	Member	2011	Director of Ride Control Engineering, Disney Imagineering

### **Employee Relations**

As of June 30, 2009, 275 full-time equivalent City employees were assigned to the Electric System. Certain functions supporting the Electric System's operations, including meter reading, customer billing and collection, are performed by BWP staff.

All BWP employees fall into one of four categories:

- (1) Those represented by Local No. 18 of the International Brotherhood of Electrical Workers ("IBEW").
- (2) Those represented by the Burbank City Employees' Association ("BCEA"), which is affiliated with the American Federation of State, County and Municipal Employees as Local No. 3143.
- (3) Those represented by the Burbank Management Association ("BMA").
- (4) Those that are unrepresented.

Although IBEW employees provide certain electrical construction and maintenance services, there are no IBEW employees assigned to the Water System. The labor contracts with BCEA and BMA will expire on June 30, 2010, and IBEW will expire on June 30, 2012. There have been no strikes or other work stoppages by the City's employees within the last five years, and the City does not anticipate any in the near future.

### **Pension Plan and Other Post-Employment Employee Benefits for Employees of the Electric System**

The City's defined benefit pension plan, Public Employees Retirement System ("PERS"), provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. PERS is part of the Public Agency portion of the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. A menu of benefit provisions, as well as other requirements, is established by state statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS

issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Active plan members in PERS were required to contribute 8% of their annual covered salary effective July 1, 2008. The City makes the contributions required of City employees on their behalf and for their account. The City is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The City is required to contribute at an actuarially determined rate. In fiscal year 2008-09, the City was required to contribute 9.752% of annual covered payroll. The contribution requirements of plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS. The Electric System is allocated its portion of the required contribution. The City contributed 100% of the annual pension cost for the City's Electric Utility Fund for the fiscal years ending June 30, 2007, June 30, 2008 and June 30, 2009 in the amount of \$3,220,000, \$3,781,000 and \$3,945,000, respectively.

The City also provides certain post-employment health care benefits under Burbank Employees Retiree Medical Trust ("BERMT"). This defined benefit plan was established in April 2003 by the city's employee associations to provide post retirement medical benefits to all non-safety employees, including elected and appointed officials. The trust is controlled by the seven voting members from the various employee associations appointed to three year terms. The City appoints an eighth member to the board, but that member is non-voting. Plan members are required to contribute forty dollars per bi-weekly pay period, which the City matches. Plan provisions and contribution requirements are established by and may be amended by BERMT board. Investments are determined by the BERMT plan trustees, and are governed by ERISA provisions. Eligibility for benefits require that members are retired, and have reached age 58 with a minimum of 5 years of contributions into the plan. The benefit provided is up to \$300 in reimbursements per month, for eligible medical expenses.

The Electric System does not separately account for its allocable portion of the cost of pension benefits and other post employment benefits ("OPEB"), the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related pension and OPEB fund assets. Additional information on the City's pension and OPEB liabilities is provided in the notes in the audited financial statements presented in APPENDIX B.

## **Insurance**

The City maintains an all-risk insurance policy on all City real property holdings. The City is self-insured and self-administered for certain exposures through the Office of the Risk Manager, a division of the Management Services Department. The City's current liability program is self-insured for the first \$1,000,000. All other liability exposures are covered under the City's excess liability program with limits up to \$45,000,000. The City's Workers' Compensation program is also self-insured and self-administered up to the first \$2,000,000. An additional Excess Workers' Compensation policy is also in place with limits up to \$50,000,000. The City does not carry earthquake insurance.

## **THE ELECTRIC SYSTEM**

### **History of the Electric System**

The City's Public Service Department was established in 1913 under the laws of the State to supervise the generation, purchase, distribution and sale of electricity and the purchase, distribution and sale of water. In 2000, the name of the Public Service Department was changed to Burbank Water and

Power. BWP currently provides service to all electric and water customers within the City and is a department provided for under the City Charter. The City owns and operates the Electric System, which is an integrated electric system consisting of generation, transmission and distribution facilities. For the Fiscal Year ended June 30, 2009, the average number of customers of the Electric System was approximately 51,367 and the total megawatt hours (“MWh”) of energy sold to customers throughout the City were approximately 1,184,000.

### **Principal Facilities**

The service area of the Electric System is solely within the City boundaries, which encompasses 17.1 square miles. The principal facilities of the Electric System consist of two natural gas-fired steam electric generating units, one natural gas-fired combustion turbine electric generating unit, four switching stations, 14 distributing stations, two industrial stations and transmission and distribution lines aggregating approximately 608 circuit miles.

### **Power Distribution**

The City interconnects its electric facilities with other electric utilities through an 806 MVA tie to the Los Angeles Department of Water and Power (“LADWP”) at Receiving Station “E” as well as a 160 megawatt (“MW”) tie with Glendale Water and Power. Presently, this tie has more than sufficient capacity to import enough power to meet the City’s system load as well as to export power to the participants in the Magnolia Power Project of SCPA. The City acts as the operating agent for the Magnolia Power Project and is responsible for operating the Magnolia Power Project on behalf of SCPA. See “THE ELECTRIC SYSTEM – Non-Burbank Owned Resources – *Magnolia Power Project.*”

Within the City, bulk power is transformed from 69 kV to 34.5 kV by four switching stations interconnected with nearly 29 circuit miles of 69 kV lines. There are about 25 circuit miles of 34.5 kV lines that interconnect the switching stations with 14 distributing stations and two industrial stations. The City has about 120 distribution circuits to serve residential neighborhoods and businesses. The City’s distribution system includes about 92 distribution circuit miles of underground lines and 211 circuit miles of overhead lines.

### **Power Supply**

**General.** BWP currently meets its Electric System power requirements from a combination of on-site gas-fired generating facilities, power purchase agreements, firm contracts and non-firm energy purchases. The City purchases power from Intermountain Power Agency (“IPA”) and has a power exchange agreement with Powerex. Additionally, the City has entitlement interests in the Palo Verde Nuclear Generating Station, the Hoover Upgrading Project, the Magnolia Power Project, Pebble Springs Wind Project, Milford I Wind Project and the Tieton Hydropower Project (described below) through its membership in SCPA. SCPA is a joint powers agency created for financing, acquiring and constructing electric generation and transmission projects for participants by some or all of its members. See “THE ELECTRIC SYSTEM – On-Site Resources, Non-Burbank Owned Resources and Short-Term, Non-Firm Contracts.”

During the Fiscal Year ended June 30, 2009, the Electric System generated and purchased (exclusive of purchases and sales for wholesale purposes) approximately 1,276,800 MWh of electricity (prior to transmission losses) for delivery to customers throughout the City. The following table sets forth the amounts, in MWh and percentages, of electricity obtained by the City for sales to customers throughout the City during the Fiscal Year ended June 30, 2009.

**Burbank Water and Power  
Annual Retail Electric Supply  
Fiscal Year Ended June 30, 2009**

<u>Resource</u>	<u>MWh</u>	<u>Percentage</u>
Intermountain Power Project (“IPP”)	501,800	39.3%
Hoover Upgrading	21,200	1.7
PVNGS	79,600	6.2
Magnolia Power Project	442,600	34.7
Firm Contracts	62,900	4.9
Short Term, Non-Firm Contracts	114,400	9.0
On-Site Generation	23,300	1.8
Renewables	<u>31,000</u>	<u>2.4</u>
Total	1,276,800 <sup>(1)</sup>	100.0%

<sup>(1)</sup> Does not equal total sales to customers throughout the City (i.e., 1,184,000 MWh) due to transmission losses and timing differences in the billing cycle.

Source: BWP.

**On-Site Resources**

The City owns and operates two steam electric generating units with a total continuous net capacity of 90 MW (with a nameplate capacity of 99 MW). The City also owns one combustion turbine electric generating unit with a total continuous net capacity of 45 MW (with a nameplate capacity of 47 MW), as indicated in the following table:

**On-Site Generation  
Owned by Burbank Water and Power**

<u>Unit Name</u>	<u>Type</u>	<u>Nameplate Capacity (MW)</u>	<u>Continuous Capacity (MW)</u>	<u>In-service</u>	<u>Energy Produced in FY 2009 (MWh)</u>
Olive 1	Steam	44	40	1959	16,000
Olive 2	Steam Combustion	55	50	1964	1,800
Lake 1	Turbine	<u>47</u>	<u>45</u>	2002	<u>5,500</u>
Total		146	135		23,300

Source: BWP.

**Non-Burbank Owned Resources**

The City purchases power and transmission capability from other sources pursuant to contracts. These contracts provide generally for the City to pay costs associated with the firm purchase of power (including fixed components like operations, maintenance and administrative expenses as well as variable components like fuel expenses). With respect to each of the facilities discussed herein, the City is one of any number of purchasers of such power and, with the exception of Magnolia Power Project, does not control the operations or management of such facility.

**Intermountain Power Project.** Intermountain Power Project (“IPP”) consists of: (a) a two-unit coal-fired, steam-electric generating plant with net ratings of 900 MW per unit (the “Generating Station”)

and switchyard (the “Intermountain AC Switchyard”), located near Lynndyl, in Millard County, Utah; (b) a ±500 kV direct current transmission line approximately 490 miles in length from and including the Intermountain AC Switchyard, the Intermountain Converter Station (an alternating current/direct current converter station adjacent to the Switchyard) to and including a corresponding converter station at Adelanto, California (collectively, the “Southern Transmission System” or “STS”); (c) two 50-mile, 345 kV alternating current transmission lines from the Intermountain AC Switchyard to the Mona Substation in the vicinity of Mona, Utah, and a 144-mile, 230 kV alternating current transmission line from the Intermountain AC Switchyard to the Gonder Substation near Ely, Nevada (collectively, the “Northern Transmission System” or “NTS”); (d) a rail car service center located in Springville, in Utah County, Utah (the “Service Center”); and (e) certain water rights and coal supplies. Such water rights and coal supplies, together with the Intermountain Generating Station, the Intermountain AC Switchyard and the Service Center, are referred to herein collectively as the “Generation Station.”

IPP purchasers are 36 utilities (collectively, the “IPP Purchasers”) consisting of the City and the California cities of Anaheim, Los Angeles, Riverside, Glendale and Pasadena (the “IPP California Participants”); PacifiCorp Energy (“PacifiCorp”), as successor to the obligations of Utah Power & Light Company (“UP&L”); 22 members of IPA and Heber Light & Power Company (collectively, the “Utah Municipal Purchasers”); and six rural electric cooperatives serving loads in the States of Utah, Arizona, Colorado, Nevada and Wyoming (collectively, the “Cooperative Purchasers”). LADWP is the operating agent of IPP.

The IPP California Participants, PacifiCorp, the Utah Municipal Purchasers and the Cooperative Purchasers have contracted, pursuant to IPP Power Sales Contracts, to purchase 75%, 4%, 14% and 7%, respectively, of the net capability of the Generation Station. The City has a 3.371% (60 MW) entitlement in the capability of the Generation Station. The City’s entitlement increases to a maximum of 4.167% when the IPP Excess Power Sales Agreement to which the City is a party is taken into consideration, but all or a portion of this increased amount of power can be recalled by other IPP participants.

IPP was constructed to provide IPP Purchasers with firm capacity and energy to satisfy a portion of their projected firm power and energy requirements. IPP and other planned resources have assisted the IPP California Participants in reducing their dependence on coal-fired generation. Unit 1 and Unit 2 of IPP were placed in commercial operation in 1986 and 1987, respectively.

The IPP Purchasers purchased their shares pursuant to separate IPP Power Sales Contracts between IPA and each IPP Purchaser. Under IPP Power Sales Contracts, IPP Purchasers are entitled to IPP generation and transmission capabilities based on their respective Generation Entitlement Shares and transmission entitlements and are obligated to make payments therefor on a “take-or-pay” basis, that is, whether or not IPP or any part thereof has been completed, is operating or is non-operable, or its output is suspended, interrupted, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever. The payment obligations under IPP Power Sales Contracts constitute operating expenses of the respective IPP California Participants and Utah Municipal Purchasers payable solely from their electric revenue funds, and general obligations of PacifiCorp and the respective Cooperative Purchasers.

IPA owns various mineral interests, including a 50% undivided interest in the Crandall Canyon Mine in Emery County, Utah and a 50% undivided interest in the West Ridge Mine in Carbon County, Utah. The Crandall Canyon Mine is currently idle. The West Ridge Mine supplies the IPP with about 20% of its annual coal requirements. LADWP, in its role as operating agent, manages these interests on behalf of IPA. Coal requirements for the IPP are approximately 6 million tons per year. LADWP manages several long-term coal supply agreements that can provide in excess of 70% of the coal

requirements for the IPP. Spot market and opportunity purchases provide the balance of the fuel requirements for the facility. LADWP reports that it has determined that the coal presently under contract from mines located in central Utah is sufficient, with the exercise of available options, to meet the IPP's annual coal requirements through 2011, with lesser amounts of coal under contract for an additional four years. LADWP expects the costs to fulfill IPP's annual coal supply requirements after 2011 will be significantly higher than its current contract costs due to the closures of several mines in Utah, difficult mining conditions at other mines, and the significant increase in rail transportation costs, among other things.

On August 6, 2007, an event occurred at the Crandall Canyon Mine that trapped underground six miners. Extensive efforts to rescue the six trapped miners were not successful and resulted in the death of three rescuers and injuries to six rescuers. The Mine Safety and Health Administration ("MSHA") immediately halted the rescue efforts. MSHA thereafter determined that conditions were too dangerous to continue the rescue efforts thereby preventing the recovery of the six trapped miners. Representatives of the six trapped miners, the three deceased rescuers and a miner who committed suicide in April 2008 along with five of the injured rescuers filed three separate cases in the state courts of Utah naming a number of defendants, including IPA, as part owner of the mine property, and LADWP, as operating agent. In May 2009, litigation related to the August 2007 accidents at the Crandall Canyon Mine in Emery County, Utah, was settled.

Events at the Crandall Canyon Mine have resulted in investigations by federal and state agencies and the United States Congress. To date such investigations have not alleged any wrongdoing by IPA or LADWP in connection with the IPP but the investigations are ongoing, and no evaluation can presently be made as to the final outcome of the investigations.

Transmission of the output from IPP to the City and the other IPP California Participants is provided by the STS. The STS was placed in operation in May 1987, and its current transfer capability is 1,920 MW. The City and SCPA have entered into a transmission service contract to provide for transmission of the City's entitlement between the Generating Station and Adelanto. Transmission service from Adelanto to the City is provided under transmission service agreements with LADWP.

There has been ongoing interest in, debate and discussion concerning the development of a third electric generation station at IPP ("IPP Unit 3"). The Intermountain Power Project Unit Three Development Agreement, dated as of May 1, 2005, was entered into among the development participants set forth therein and the IPA, as development manager. The City is not a signatory to such agreement. Four entities were involved in the development phase: Utah Associated Municipal Power Systems ("UAMPS"), PacifiCorp, Southern Nevada Water Authority and the City of Glendale, California.

The City's current share of IPP capacity is up to 75 MW. The City's participation in IPP Units 1 and 2 continues through the year 2027. The City, along with the other California participants in IPP, will undertake studies and subsequent plans to mitigate emissions at the facility in an effort to maintain its position in the plant beyond 2027.

In February 2005, a number of dairies and dairy farmers filed a lawsuit (the "Utah Dairy Case") in Utah state court naming IPA, LADWP and others as defendants based upon claims alleging that since 1987, "stray voltage" emitted from the IPP facilities through the ground and ground water damaged the dairy herds, including higher than normal death rates, a reduction in milk production and an impairment to the cows' immune systems. The Utah plaintiffs seek compensatory damages in excess of \$250,000,000. The trial court has dismissed certain claims in the complaint with prejudice and certain other claims without prejudice. In September 2008, the court issued rulings on certain other pending motions, including granting a motion of LADWP and IPA to dismiss all claims of punitive damages

against those entities, dismissing the claims of one plaintiff, dismissing one other cause of action against LADWP and IPA, and denying certain other motions without prejudice. In June 2009, the court held a five-day evidentiary hearing on motions by LADWP and IPA to exclude the testimony of Plaintiffs' experts. On August 4, 2009, the court ruled that it would permit Plaintiffs' electrical experts to testify, but would exclude all testimony of Plaintiffs' only veterinary witness. Because the court has strongly suggested in prior rulings that Plaintiffs must have expert veterinary testimony to proceed, LADWP and IPA are preparing motions to dismiss the case. The outcome of those efforts cannot be predicted. If the court declines to dismiss the case, trial dates will be set, with several possible trials to occur, the first to include six dairies as chosen by the parties. LADWP has indicated that electrical tests performed by LADWP's experts reveal no current or voltage attributable to the IPP facilities on the Utah plaintiffs' farms and LADWP believes that their claims are without merit. LADWP has indicated that in the event that damages are awarded to the Utah plaintiffs against IPA, any part of the award not otherwise covered by insurance may be apportioned among utilities that purchase IPP capacity in accordance with their entitlement shares. The City cannot predict the final resolution of the Utah Dairy Case or its impact on the IPP or the IPP Purchasers.

The City's entitlement in the Generation Station has historically accounted for between one-third to one-half of the Electric System's total energy resources. In Fiscal Year ended June 30, 2009, the IPP Generating Station provided 501,800 MWh of energy to the City at an average cost (including additional amounts collected by IPA during such Fiscal Year to be used for competitive purposes) for delivered power of approximately 4.8 cents per kilowatt hour ("kWh"). The Generation Station also represents the City's largest source of electricity generated by coal-fired plants. Senate Bill 1368 ("SB 1368") and other recent legislation may cause the City to decrease its reliance on electricity generated by burning coal. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – State Legislation."

***Hoover Upgrading Project.*** The City is a participant in SCPPA's Hoover Upgrading Project. Modern insulation technology made it possible to "uprate" the nameplate capacity of existing generators (the "Hoover Upgrading Project"). The Hoover Upgrading Project consists principally of the upgrading of the capacity of 17 generating units at the hydroelectric power plant of the Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. The City and the cities of Anaheim, Azusa, Banning, Colton, Glendale, Pasadena, Riverside and Vernon have obtained entitlements totaling 127 MW of capacity and approximately 143,000 MWhs of allocated energy annually from the Hoover Upgrading Project. In 1987, to reflect these entitlements, these cities entered into contracts with the United States Bureau of Reclamation (the "Bureau") providing for the advancement of funds for the upgrading and with Western Area Power Administration ("Western") for the purchase of power from the Hoover Upgrading Project. Subsequently, the City and the cities of Anaheim, Riverside, Azusa, Colton and Banning (collective, the "Hoover Participants") entered into assignment agreements with SCPPA to assign their entitlements in return for SCPPA's agreement to provide funds to the Bureau to pay for the Hoover Participants' share of the Hoover Upgrading Project costs. Based on Western's allocations and the assignment agreements, SCPPA's share of the Hoover Upgrading Project is approximately 94 MW of capacity and approximately 107,000 MWhs of associated energy annually. As of January 1, 2010, SCPPA had outstanding \$14,495,000 aggregate principal amount of bonds with respect to the Hoover Upgrading Project.

The City has a 15.9574% (15 MW) entitlement interest in SCPPA's approximately 94 MW interest in the total capacity and allocated energy of Hoover Upgrading Project. The City has executed a power sales contract with SCPPA under which the City has agreed to make monthly payments on a "take-or-pay" basis in exchange for its share of SCPPA's proportionate share of Hoover capacity and allocated energy. In the Fiscal Year ended June 30, 2009, Hoover Upgrading Project provided 21,200 MWh of energy to the City.

***Southern Transmission Project.*** The City is a participant in SCPPA's Southern Transmission Project, which provides the City with a 4.498% (86.4 MW) entitlement in the transfer capability of the STS. The STS is one component of the Intermountain Power Project of the IPA. Certain members of SCPPA (namely, LADWP, the City and the cities of Anaheim, Glendale, Pasadena and Riverside) have entered into power sales contracts with IPA pursuant to which they purchase a share of the capacity and energy of the Intermountain Power Project. SCPPA acquired from each of such members its entitlement to capacity of the Southern Transmission Project. The Southern Transmission Project consists of the following: (a) the AC/DC Intermountain Converter Station adjacent to the Intermountain Power C switchyard in Utah; (b) the  $\pm 500$ -kV DC bi-pole transmission line ("HVDC transmission line"), 488 miles in length, from the Intermountain Converter Station to the City of Adelanto, California; (c) the AC/DC Adelanto Converter Station, where the Southern Transmission Project connects to the switching and transmission facilities of LADWP; and (d) related microwave communication system facilities. The HVDC transmission line is designed to have the capability of transmitting in excess of the aggregate output of the Intermountain Power Project anticipated to be delivered to the participants in the Southern Transmission Project. The AC/DC converter stations each consist of two solid state converter valve groups and have a combined rating of 1,920 MW with an overload rating for each group of 1,200 MW in the event one group is out of service. Construction is currently underway to upgrade these converter stations and increase their combined rating to 2,400 MW. The microwave communication system facilities are used for Generation Station dispatch, for Intermountain Power Project communication, and for control and protection of the Southern Transmission Project. The microwave system facilities are located along two routes between the Generation Station and Adelanto, forming a loop network. The commercial operation date for the Southern Transmission Project was July 1, 1986. SCPPA has sold all of its acquired capability of the Southern Transmission Project, on a "take-or-pay" basis, through transmission service contracts with LADWP, the City and the cities of Anaheim, Glendale, Pasadena and Riverside. As of January 1, 2010, SCPPA had outstanding \$900,705,000 aggregate principal amount of bonds with respect to the Southern Transmission Project. The City's transmission service contract with SCPPA obligates the City to pay its share of debt service on bonds issued by SCPPA for the project on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance. As discussed above, the City uses its entitlement share of transfer capability in the Southern Transmission Project for the transmission of energy from the IPP.

There is a large potential for wind and geothermal renewable energy resources in development and available in Central Utah. To have access to the potential energy in that area, the California participants in IPP have initiated the STS Upgrade project, which will increase the transfer capability of the STS by 480 MW. As a result of the STS Upgrade project, the City's entitlement in the transfer capability of the STS will increase by 21.6 MW. The cost of the STS Upgrade project is expected to be \$125 million and was bond financed by SCPPA in December 2008. The upgrade is expected to be in commercial operation by July 2010.

***Magnolia Power Project.*** The City is a participant and the operating agent of the Magnolia Power Project of SCPPA. The Magnolia Power Project ("Magnolia Project") consists of a natural gas-fired electric generating plant with a nominally rated net capacity of 242 MW and auxiliary facilities located in Burbank, California. The Magnolia Project is owned by SCPPA and was constructed and acquired for the primary purpose of providing participants in the Magnolia Project with firm capacity and energy to help meet their power and energy requirements. SCPPA has entered into Power Sales Agreements with the City and the cities of Anaheim, Cerritos, Colton, Glendale and Pasadena pursuant to which SCPPA has sold 100% of its entitlement to capacity and energy in the Magnolia Project to such participants on a "take-or-pay" basis. The commercial operation date for the Magnolia Project was September 22, 2005. SCPPA had outstanding \$379,750,000 aggregate principal amount of bonds with respect to the Magnolia Project as of January 1, 2010 (of which \$13,195,000 relates exclusively to the City of Cerritos).

The City has a 30.9917% entitlement (75 MW base capacity and 97.6 MW peaking capacity) in the project through a long-term power purchase agreement with SCPPA which obligates the City to pay for its share of capacity and energy on a “take-or-pay” basis, including debt service on bonds issued by SCPPA for the project, capital costs and costs related to operation and maintenance. The annual operating costs of the Magnolia Power Project are estimated to range from \$8 million to \$10 million, plus natural gas fuel supply costs. The unit was placed in service in September 2005 and operates in a base-load mode (8,000 hours per year or more) with staffing by BWP personnel on a 24-hour basis. In the Fiscal Year ended June 30, 2009, the Magnolia Power Project supplied the City with 442,600 MWh.

***Palo Verde Nuclear Generating Station (PVNGS).*** Through its membership in SCPPA, the City has a 4.40% entitlement interest (9.7 MW) in SCPPA’s 5.91% ownership interest in the Palo Verde Nuclear Generating Station (“PVNGS”), including certain associated facilities and contractual rights, a 5.56% ownership in the Arizona Nuclear Power Project (“ANPP”) High Voltage Switchyard and associated contractual rights, and a 6.55% share of the rights to use certain portions of the ANPP Valley Transmission System.

SCPPA has sold the entire capability of SCPPA’s interest pursuant to power sales contracts with nine California cities and a California irrigation district, each of which is a member of SCPPA. The City and the cities of Azusa, Banning, Colton, Glendale, Pasadena, Riverside and Vernon as well as LADWP and the Imperial Irrigation District are PVNGS project participants. Under the PVNGS power sales contracts, the participants are entitled to SCPPA generation capability based on their respective PVNGS entitlements and are obligated to make payments on a “take-or-pay” basis.

Commercial operation and initial deliveries from PVNGS Units 1, 2 and 3 commenced in 1986 and 1987, respectively. In addition to the transmission lines for the Mead-Adelanto Project and the Mead-Phoenix Project, transmission is accomplished through agreements with Salt River Project, LADWP and Southern California Edison Company. SCPPA had outstanding \$89,470,000 aggregate principal amount of bonds with respect to PVNGS as of January 1, 2010.

In response to increased competition in the electric utility business, in 1997 SCPPA began taking steps designed to accelerate the payment of all fixed rate bonds relating to PVNGS by July 1, 2004 (the “PVNGS Restructuring Plan”). Such steps consisted primarily of refunding certain outstanding bonds for savings and accelerating payments by the PVNGS project participants on the bonds issued by SCPPA for PVNGS. The PVNGS Restructuring Plan accomplishes substantial savings to the PVNGS project participants from and after the time the principal of and interest on such fixed rate bonds were paid or provision for the payment thereof was made (i.e., from and after July 1, 2004). Under the PVNGS Restructuring Plan, the delivered cost of energy produced by PVNGS decreased significantly on July 1, 2004.

The City has a power sales agreement with SCPPA which obligates the City to pay for its share of capacity and energy on a “take-or-pay” basis, including debt service on bonds issued by SCPPA for the project, capital costs and costs related to operation and maintenance. In the Fiscal Year ended June 30, 2009, PVNGS provided 79,600 MWh of energy to the City.

The co-owners of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. Based on a 2007 estimate, which is the most recent estimate of decommissioning costs, SCPPA has advised the City that its estimated share of decommissioning costs through SCPPA is fully funded as of December 31, 2007. No assurance can be given, however, that such amount will continue to be sufficient to fully fund SCPPA’s share of decommissioning costs. SCPPA has advised the City that it anticipates that it will receive a new estimate of decommissioning costs every three years.

***Mead-Phoenix Transmission Project.*** The City is a participant in SCPPA's Mead-Phoenix Transmission Project. The Mead-Phoenix Transmission Project consists of a 256-mile, 500-kV AC transmission line that extends between a southern terminus at the existing Westwing Substation (in the vicinity of Phoenix, Arizona) and a northern terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. The line is looped through the 500-kV switchyard constructed in the existing Mead Substation in southern Nevada with a transfer capability of 1,300 MW. By connecting to Marketplace Substation, the Mead-Phoenix Transmission Project interconnects with the Mead-Adelanto Transmission Project and with the existing McCullough Substation. The Mead-Phoenix Transmission Project is comprised of three project components. SCPPA has executed an ownership agreement providing it with an 18.3077% member-related ownership share in the Westwing-Mead project component, a 17.7563% member-related ownership share in the Mead Substation project component, and a 22.4082% member-related ownership share in the Mead-Marketplace project component. Other owners of the line are Arizona Public Service Company, M-S-R Public Power Agency, Salt River Project and Startrans IO, L.L.C.. SCPPA has sold, on a "take-or-pay" basis, the entire capability of its member-related ownership interest through transmission service contracts with nine members of SCPPA (all of SCPPA's members with the exception of the Imperial Irrigation District and the cities of Cerritos and Vernon). The commercial operation date for the project was April 15, 1996. SCPPA had outstanding \$60,640,000 aggregate principal amount of bonds with respect to the Mead-Phoenix Transmission Project as of January 1, 2010.

The City has entered into a transmission service contract with SCPPA under which SCPPA has sold to the City, on a "take-or-pay" basis, its entitlement share of 15.4% (approximately 35 MW) of SCPPA's member-related ownership interest in the Mead-Phoenix Transmission Project and which obligates the City to pay its share of debt service on bonds issued by SCPPA for the project, as well as capital costs and costs related to operation and maintenance.

***Mead-Adelanto Transmission Project.*** In connection with the Mead-Phoenix Transmission Project, the City has an 11.5337% (approximately 101 MW) entitlement to SCPPA's share of the Mead-Adelanto Transmission Project. The Mead-Adelanto Transmission Project consists of a 202-mile, 500-kV AC transmission line that extends between a southwest terminus at the existing Adelanto Substation in southern California and a northeast terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. By connecting to Marketplace Substation, the line interconnects with the Mead-Phoenix Transmission Project and the Mead-Adelanto Transmission Project interconnects with the existing McCullough Substation in southern Nevada. The line has a transfer capability of 1,200 MW. SCPPA has executed an ownership agreement providing it with a total of a 67.9167% member-related ownership share in the project. The other owners of the line are M-S-R Public Power Agency and Startrans IO, L.L.C.. SCPPA has sold the entire capability of its member-related ownership interest, on a "take-or-pay" basis, through transmission service contracts with nine members of SCPPA (all of SCPPA's members with the exception of the Imperial Irrigation District and the Cities of Cerritos and Vernon). SCPPA has two separate and independent ownership interests in this project: one interest for SCPPA's members participating in the project, and one interest for Western which provides the funding for that interest. The commercial operation date for the project was April 15, 1996, which coincided with the completion of the Mead-Phoenix Transmission Project. SCPPA had outstanding \$190,440,000 aggregate principal amount of bonds with respect to the Mead-Adelanto Transmission Project as of January 1, 2010.

The City has entered into a transmission service contract with SCPPA, under which SCPPA has sold to the City, on a "take-or-pay" basis, its entitlement share of SCPPA's member-related ownership interest in the Mead-Adelanto Transmission Project. The City's transmission service contract with SCPPA obligates the City to pay its share of debt service on bonds issued by SCPPA for the project, as well as capital costs and costs related to operation and maintenance.

**Natural Gas Project.** The City is a participant in SCPPA's Natural Gas Project. The Natural Gas Project includes the SCPPA's leasehold interests in (i) certain natural gas resources, reserves, fields, wells and related facilities located near Pinedale, Wyoming (the "Wyoming Subproject") and (ii) certain natural gas resources, reserves, fields, wells and related facilities in (or near) the Barnett Shale geological formation in Texas (the "Texas Subproject," and collectively with the Wyoming Subproject, the "Natural Gas Project"). SCPPA has sold the entire production capacity of its leasehold interests in the Natural Gas Project by entering into gas sales agreements with the City and the cities of Anaheim and Colton (collectively, the "Natural Gas Project A Participants") and with the cities of Glendale and Pasadena on a "take-or-pay" basis (other than with respect to debt service, which is payable only by the Natural Gas Project A Participants on a several basis). On February 6, 2008, SCPPA issued revenue bonds in three simultaneous financings (each for the benefit of a Natural Gas Project A Participant). As of January 1, 2010, SCPPA had outstanding \$127,685,000 aggregate principal amount of Natural Gas Project A Revenue Bonds, consisting of \$73,295,000, \$39,345,000 and \$15,045,000 aggregate principal amount of the Anaheim series, the City series and the Colton series, respectively.

The City has an interest in a portion of the production capacity of SCPPA's leasehold interests in the Natural Gas Project through a gas sales agreement with SCPPA, which agreement obligates the City to pay for its share of capital costs and costs related to operation and maintenance of the Natural Gas Project on a "take-or-pay" basis, as well as 100% of the debt service (on a several basis) on bonds issued by SCPPA to finance the City's share of the costs for the development and acquisition of the Natural Gas Project.

**Prepaid Natural Gas Project.** The City and several members of SCPPA have completed a prepaid natural gas financing to secure another source of long-term supply of gas to provide fuel for the Magnolia Power Project and other gas-fired generation stations. The Prepaid Natural Gas Project primarily consists of the acquisition by SCPPA of the right to receive an aggregate amount of approximately 135 billion cubic feet of natural gas (which amount has been reduced to approximately 90 billion cubic feet as a result of the restructuring described below) from J. Aron & Company ("J. Aron") pursuant to the terms of five Prepaid Natural Gas Sales Agreements between SCPPA and J. Aron, each relating to a separate participant. The gas is delivered by J. Aron to SCPPA at designated delivery points on the natural gas pipelines that serve the participants in specified daily quantities each month, over the approximately 30-year term (now 27-year term due to the restructuring) of each of the Prepaid Natural Gas Sales Agreements, in exchange for the lump sum prepayment made to J. Aron by SCPPA on the date of issuance of SCPPA's Gas Project Revenue Bonds (Project No. 1) in 2007. SCPPA had outstanding \$333,370,000 aggregate principal amount of bonds with respect to the Prepaid Natural Gas Project as of January 1, 2010. On October 22, 2009, the Prepaid Natural Gas Sales Agreements and certain other agreements between SCPPA and J. Aron were restructured to provide an acceleration of a portion of the long-term savings, reduce the remaining volumes of gas to be delivered and shorten the overall duration of the agreements. As a result of the restructuring, approximately \$165,000,000 principal amount of bonds with respect to the Prepaid Natural Gas Project was discharged. SCPPA has sold its interest in the natural gas, on a "take-and-pay" basis, through gas supply agreements with the City and the cities of Anaheim, Colton, Glendale and Pasadena. The City's natural gas supply agreement with SCPPA is expected to provide approximately one-fourth of the City's gas requirements for the Magnolia Power Project.

**Pacific Northwest-Pacific Southwest 500 kV DC Transmission Line.** The DC Intertie is an 850 mile ± 500 kV DC line rated 3,100 MW connecting the Pacific Northwest with the Los Angeles Basin. The line is operated by Bonneville Power Administration ("BPA"). The City has ownership in 119 MW of capacity at the Nevada-Oregon border. The City currently has excess capacity on this line. In 1990, the City entered into a 20-year agreement with the cities of Anaheim, Azusa, Banning, Colton and Riverside to sell 30 MW of this excess capacity that expired on September 30, 2009. The City is

currently negotiating for the sale of the excess capacity. The City and the cities of Glendale and Pasadena participated in the Sylmar Expansion Project which was completed in 1991. The Sylmar Expansion Project provided a 1,100 MW expansion of the DC Intertie's AC/DC terminal converter station located at Sylmar, California. The increased capacity of the DC Intertie (from 2,000 MW to 3,100 MW) is operational and available.

***Pebble Springs Wind Project.*** SCPPA, on behalf of three project participants, including the City, signed a long-term power purchase agreement with Pebble Springs Wind Project LLC. The facility is located in Oregon with a total capacity of 98.7 MW, comprised of 47 Suzlon 2.1 MW wind turbines. The City has a 10.132% (approximately 10 MW) entitlement interest in the total capacity, energy and environmental attribute rights produced by the facility. In the Fiscal Year ended June 30, 2009, Pebble Springs provided 12,768 MWh of energy to the City.

***Milford I Wind Project.*** The City entered into a Power Sales Agreement with SCPPA for 5.0% (approximately 10 MW) of the output of Milford Wind Corridor Phase I. The facility is owned by Milford Wind Corridor Phase I, LLC, a wholly owned subsidiary of UPC Wind Management. The facility is located in Utah with a total capacity of 200 MW, comprised of 80 Clipper 2.5 MW wind turbines. The City has an entitlement interest of 5.0% of the total capacity, energy and environmental attribute rights produced by the facility. The plant went into commercial operation on November 16, 2009. SCPPA expects to issue "prepaid" bonds in February 2010, which will entitle Burbank to continue receiving 5.0% of the total capacity, energy and environmental attribute rights for approximately 20 years.

***Tieton Hydropower Project.*** The City is a participant in SCPPA's Tieton Hydropower Project. The Tieton Hydropower Project consists of a 13.6 MW nameplate capacity "run of the reservoir" hydroelectric generation facility, comprised of (i) a powerhouse located near Rimrock Lake in Yakima County approximately 40 miles west of the city of Yakima, Washington, and constructed at the base of the Bureau's Tieton Dam on the Tieton River, (ii) a 21-mile 115 kV transmission line from the power plant substation to the point of interconnection with the electrical grid, and (iii) related assets, property and contractual rights, acquired by SCPPA in November 2009, pursuant to an Asset Purchase Agreement, dated as of October 19, 2009, by and between SCPPA and Tieton Hydropower, L.L.C., a Washington limited liability corporation. As of January 1, 2010, SCPPA had outstanding \$47,655,000 principal amount of notes issued to provide interim financing for the payment of the costs of acquisition of the Tieton Hydropower Project. The City has entered into a power sales and acquisition contract with SCPPA, under which SCPPA has sold to the City on a "take-or-pay" basis, its entitlement share of 50.0% (approximately 6.8 MW) of the capacity and energy of the Tieton Hydropower Project. The City's power sales and acquisition contract with SCPPA obligates the City to pay its share of debt service on bonds or notes issued by SCPPA for the project, as well as capital costs and costs related to operation and maintenance.

The projects described above (other than the Prepaid Natural Gas Project) are subject to the other parties involved in those projects meeting their respective payment obligations with respect to such projects. If a party defaults on its payment obligations, then the non-defaulting parties, subject to the utilization of any reserves, may be required to expend additional funds with respect to such project. If a non-defaulting party does "step-up" to the payment obligation of a defaulting party, the non-defaulting party is entitled to the capability and/or output of the defaulting party's share of the project.

## **Exchange Agreement**

***Powerex Exchange Agreement.*** On January 1, 2008, an exchange agreement between the City and Powerex took effect. Under the agreement, the City receives approximately 42,000 MWh of firm on-

peak energy from mid-June to mid-October each year delivered at a rate of 40 MW per hour. In exchange, the City returns to Powerex on an annual basis approximately 97,500 MWh during the off-peak period of varying rates from 25 to 50 MW per hour. The contract has a five year term and is scheduled to expire on December 31, 2012.

### **Short-Term, Non-Firm Contracts**

The City expects to provide for its energy needs that are not covered by long-term power supply contracts from the least expensive method of either dispatching power from its local generating units or short-term (quarterly, monthly, weekly, daily or hourly) purchases on the spot market. Short-term purchases are made under the Western Systems Power Pool Agreement and numerous bilateral agreements. The cost of obtaining the necessary energy is dependent upon such factors as the availability of generating resources in the region and weather conditions such as ambient temperatures and time of year.

Historically, the City has met up to an average of 19% of its resource portfolio using short term, non-firm power purchases. This strategy takes advantage of seasonal surplus energy from the Pacific Northwest and utilizes the on-site generators to generate peak-hour and near-peak-hour energy. The flexibility of short term, non-firm power purchases allows the City to adjust its needs and to offer competitive rates to its customers. This strategy has worked well and is reflected in the fact that the cost of these economic purchases has historically averaged significantly less than the cost of long-term power contracts.

### **Electric System Initiatives**

***Competitiveness Transition Plan.*** In 1998, the BWP Board and the City Council adopted a “Competitiveness Transition Plan” (as updated, the “Plan”) in response to the then anticipated impacts of deregulation in California. The City has never granted open access for City customers.

These goals have been adopted to fulfill the Plan:

- Maintain competitive and stable rates for all customer classes
- Optimize use of assets, manage costs, and increase reserves
- Maintain sound financial policies to ensure BWP’s financial stability
- Ensure that BWP is competitive with other Western Utilities
- Uphold standards of customer services and reliability

***Power Supply Resources.*** The availability of local generation through existing facilities (the cost of which is more economical during periods of high cost in the power market) as well as the additional facilities utilizing state-of-the-art natural gas-fired technology (including the Lake 1 Unit and the Magnolia Power Project) are designed to allow the City to more efficiently dispatch local generation and to hedge against future market volatility in energy prices. Another essential factor is that local generation will improve regional electric reliability because it does not depend on long-distance interstate transmission lines.

The City has taken the following actions to serve its customers and to mitigate the impact of recent changes in its power supply resource portfolio:

*Integrated Resource Plan.* The City Council approved the 2006 Integrated Resource Plan and supports policy recommendations that BWP meet future power supply needs by developing resources in the following order of priority: Efficiency Improvements, Conservation and Renewable Energy.

*Forward Purchases and Energy Risk Management.* BWP has developed short-term as well as long-term energy procurement strategies to reduce price risks and volatility. These strategies are monitored by BWP management utilizing the Energy Risk Management Policy originally adopted in 2003 and most recently amended in April 2009. The Energy Risk Management Policy addresses four different type of risks: operational risk, retail energy input risk, wholesale power risk and credit risk. Operational risk arises if there are not enough resources available to meet retail load requirements. The retail energy input risk is the financial risk that arises from serving retail load. Under the Energy Risk Management Policy, retail energy input risk is mitigated by executing energy hedges based on historical price benchmarks, or, on a time-driven basis, if historical price benchmarks are not reached. Under the Energy Risk Management Policy, credit risk is mitigated by assigning credit limits based on a counterparty's credit rating and financial strength. A copy of the Energy Risk Management Policy is available from the City.

*Renewable Energy.* The City Council adopted a renewable portfolio standard ("RPS") policy in November 2003, which was revised in June 2007 to address the growing concerns about the environment. With the revised resolution adopted in June 2007, the City Council approved the revision to the RPS's goal of meeting 33% of the City's retail energy sales with renewable energy resources by 2020 from 20% by 2017. Currently, approximately 9% of the City's retail energy sales are met from renewable energy resources. The City believes that achieving renewable goals will result in cost pressures on the Electric System. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – State Legislation – *Renewable Portfolio Standards.*"

*Wholesale Margins.* Wholesale margins for Fiscal Year 2008-09 were \$4.2 million. Wholesale margins continue to contribute significantly to the City's financial performance by reducing the utility's overall power supply costs. Wholesale trading opportunities exist because the City is able to utilize BWP's assets through marketing temporary excess capacity, energy or transmission. The City believes that wholesale transactions are low risk because they are short-term, e.g. mostly less than 90 days, and not open-ended transactions. The trading risks are also mitigated through the adoption of the Energy Risk Management Policy and oversight by the Energy Risk Manager. The Risk Oversight Committee ("ROC") also meets regularly to review counterparty credits and transactions. Members of the ROC include the General Manager, Chief Financial Officer, Assistant General Manager/Power Supply, Energy Control Center Manager, Power Production Manager, Power Resource Manger, Financial Planning and Risk Manager.

*Fuel Supply.* Natural gas usage for Fiscal Year 2008-09 was approximately 3,637,000 MMBtu, of which 88% was used by Magnolia Project. During Fiscal Year 2008-09, the prepaid gas program and SCPPA owned natural gas reserves provided 40% and 17%, respectively, to BWP's fuel usage. The remaining fuel needs were supplied by major gas suppliers with the majority of the fuel hedged financially, as addressed in the Energy Risk Management Policy.

*Financial Reserves.* BWP management initially developed the financial reserve policy to maintain its long term rate stability in May 2003 and subsequently updated the policy in January 2008. Reserves were established for general operating expenses, debt reduction and capital funding, fleet

replacement and general plant replacement. The Electric System maintained approximately \$43.5 million of cash and cash equivalents, including deposits at SCPPA, as of June 30, 2009.

**Customer Relations.** Customers and community relationships continue to be an important focus for all utility interactions. Good relationships go hand in hand with high system reliability, and competitive and stable rates. BWP conducts regular customer satisfaction surveys using an independent research firm to ensure service levels and that the programs meet customers' expectations. The results of the most recent survey revealed that customers continue to believe the utility is well-run, trustworthy, and committed to protecting the environment. The City has maintained outstanding system-wide reliability statistics. The average customer experienced a service outage only once every 5.0 years, for an average period lasting only 59.5 minutes during Fiscal Year 2008-09. Further, BWP continues to enhance its service options with telecommunications capabilities for its larger commercial customers.

### Customers and Energy Sales

The following table sets forth the Electric Revenues derived from sales by classification of services and peak demand during the past five Fiscal Years.

<b>Burbank Water and Power</b>					
<b>Electric Revenues and Peak Demand</b>					
<b>(\$000's)</b>					
<b>Fiscal Year Ended June 30,</b>					
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Electric Revenues from Sales:					
Residential	\$ 37,878	\$ 37,424	\$ 36,157	\$ 35,113	\$ 33,316
Commercial	43,056	37,918 <sup>(2)</sup>	33,756	32,197	34,758
Large Commercial	67,536	68,556 <sup>(2)</sup>	73,408	71,534	63,706
Other retail revenues	<u>9,569</u>	<u>11,616<sup>(2)</sup></u>	<u>10,595<sup>(1)</sup></u>	<u>4,643</u>	<u>4,524</u>
Total Retail Revenues	158,039	155,514	153,916	143,487	136,304
Wholesale	120,716	220,177	207,259	195,512	110,037
Other <sup>(3)</sup>	<u>8,834</u>	<u>6,476</u>	<u>7,585</u>	<u>6,159</u>	<u>5,494</u>
Total	<u>\$287,589</u>	<u>\$382,167</u>	<u>\$368,760</u>	<u>\$345,158</u>	<u>\$251,835</u>
Peak Demand (MW)	289	308	307	284	281

<sup>(1)</sup> Prior to 2007, revenues collected for Public Benefits and Street Lighting were embedded in revenue for each of the customer classes.

<sup>(2)</sup> Mid-year customer class and rate restructuring, effective January 1, 2008.

<sup>(3)</sup> Other operating revenues included transmission, telecommunications and other miscellaneous revenues.  
Source: BWP.

The following tables set forth the average number of retail customers and total retail energy sold during the past five Fiscal Years.

**Burbank Water and Power  
Average Number of Retail Customers**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Residential	44,499	44,279	44,009	43,973	43,930
Commercial	6,553	6,537 <sup>(1)</sup>	6,299	6,288	6,274
Large Commercial	81	71 <sup>(1)</sup>	164	167	167
Other	<u>234</u>	<u>264<sup>(1)</sup></u>	<u>289</u>	<u>274</u>	<u>262</u>
Total	51,367	51,151	50,762	50,702	50,633

<sup>(1)</sup> Mid-year customer class and rate restructuring, effective January 1, 2008.  
Source: BWP.

**Burbank Water and Power  
Total Retail Energy Sold  
(Millions of kWh)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Residential	285	286	285	268	259
Commercial	309	282	257	244	241
Large Commercial	553	578	613	588	535
Other	<u>37</u>	<u>34</u>	<u>33</u>	<u>38</u>	<u>58</u>
Total	<u>1,184</u>	<u>1,180</u>	<u>1,188</u>	<u>1,138</u>	<u>1,093</u>

Source: BWP.

**Major Customers**

The City's largest retail electric customer accounted for approximately 6.4% of the City's energy sales for the Fiscal Year ended June 30, 2009. The City's ten largest retail electric customers (excluding City accounts), comprised of large commercial customers, provided approximately 27.0% of the City's energy sales for the Fiscal Year ended June 30, 2009.

**Electric Rates and Charges**

The City is obligated by the City Charter and by its electric bond indentures to establish rates and collect charges in an amount sufficient to meet its operation and maintenance expenses and debt service requirements. Electric rates are established by the City Council and are not subject to regulation by the CPUC or by any other state agency. The General Manager of BWP may on a monthly basis establish an energy cost adjustment change ("ECAC") amount based on the estimated energy sales sufficient to recover the cost of energy. The monthly ECAC is limited to no more than a ten percent increase or decrease from the prior month's ECAC.

Although its rates are not subject to approval by any federal agency, the City is subject to certain provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA"). PURPA requires

state regulatory authorities and nonregulated electric utilities, including the City, to consider certain rate-making standards and to make certain determinations in connection therewith. The City believes that it is operating in compliance with PURPA.

On January 1, 1998, pursuant to California Assembly Bill 1890, the City instituted a public benefits surcharge. The Electric System's base rates have been changed seven times over the period beginning January 1, 1998. The City Council approved the most recent mid-year rate increase of 5.75% effective on January 1, 2010 for electric customers. The City provides no free electric services. The following table sets forth the percentage change in rates for the indicated customer classes.

**Burbank Water and Power  
Percentage Change in Electric Rates<sup>(1)</sup>**

Effective Date	Overall System	Residential	Commercial	Large Commercial
01/01/98 <sup>(2)</sup>	1.00	1.00	1.00	1.00
07/01/98	5.00	5.00	5.00	5.00
07/01/99	3.50	3.50	3.50	3.50
07/01/01	10.00	10.00	10.00	10.00
10/01/01	11.00	11.00	11.00	11.00
07/01/06	3.50	3.50	3.50	3.50
01/01/08	2.50	2.50	2.50	2.50
01/01/10	5.75	5.75	5.75	5.75

<sup>(1)</sup> Percentage change is based upon immediately preceding rate.

<sup>(2)</sup> Increase was imposed to assist BWP in satisfying the public benefit spending obligation imposed by AB 1890 (i.e., 2.85% of electric rate revenues).

Source: BWP.

The table below sets forth the weighted average billing price per kWh of the City's various retail customer classes for the period indicated.

**Burbank Water and Power  
Weighted Average Retail Billing Price  
(Cents per Kilowatt-Hour)**

	Fiscal Year Ended June 30,				
	2009	2008	2007	2006	2005
Residential	13.27	13.07	12.93	12.38	12.34
Commercial	13.93	13.45	13.20	12.69	13.17
Large Commercial	12.22	11.86	11.98	11.55	11.73
Weighted Average – All Classes Combined	12.94	12.55	12.47	12.01	12.18

Source: BWP.

**Capital Improvements**

The City has a capital improvement program designed to meet load requirements, repair and replace facilities as needed, and satisfy new safety and regulatory requirements. All capital improvements

are considered and adopted as part of the City’s annual budget process. The City currently expects to finance such capital improvements through a combination of bond financing and a “pay-as-you-go” basis.

The following table is a summary of the City’s Five-Year Capital Improvement Program. The 2010 Bonds will finance approximately \$50 million of the City’s Five-Year Capital Improvement Program.

**Burbank Water and Power  
Five-Year Capital Improvement Program  
(\$000’s)**

	<b>2010-11 Forecast</b>	<b>2011-12 Forecast</b>	<b>2012-13 Forecast</b>	<b>2013-14 Forecast</b>	<b>2014-15 Forecast</b>	<b>Total Forecast</b>
Power Supply Improvement Projects	\$ 9,992	\$ 7,700	\$11,250	\$10,450	\$ 4,675	\$ 44,067
Distribution Expansion Projects	5,622	14,525	10,130	3,200	500	33,977
Distribution Replacement Projects	13,650	13,600	5,910	5,960	5,960	45,080
New Customer Projects/AIC	2,235	1,460	860	910	1,360	6,825
Fiber Optic Projects	500	500	500	500	500	2,500
Facility Renovations	6,135	100	-	-	-	6,235
Customer Service and other	1,200	2,000	-	-	-	3,200
Capital Outlay and other	<u>4,518</u>	<u>1,580</u>	<u>1,065</u>	<u>1,456</u>	<u>1,436</u>	<u>10,055</u>
Total CIP	<u>\$43,852</u>	<u>\$41,465</u>	<u>\$29,715</u>	<u>\$22,476</u>	<u>\$14,431</u>	<u>\$151,939</u>

Source: BWP.

**Indebtedness**

As of January 1, 2010, the City had \$70,560,000 in outstanding principal amount of long-term obligations payable from electric net revenues of the Electric System (after the payment of operating and maintenance expenses of the Electric System, including the City’s obligations with respect to its agreements with joint powers agencies as described under “Joint Powers Agency Contracts” below) consisting of (i) \$38,385,000 in outstanding principal of Electric Revenue Bonds, Series of 1998, (ii) \$12,435,000 in outstanding principal of Electric Revenue Bonds, Series of 2001 and (iii) \$19,740,000 in outstanding principal of Electric Revenue Bonds, Series of 2002. After issuance of the 2010 Bonds, the City will have \$113,870,000 in outstanding principal amount of long-term obligations payable from electric net revenues of the Electric System (after the payment of operating and maintenance expenses of the Electric System, including the City’s obligations with respect to its agreements with joint powers agencies as described under “Joint Powers Agency Contracts” below). See “PLAN OF REFUNDING” and “THE 2010 PROJECT.”

**Joint Powers Agency Contracts**

As previously discussed, the City contracts with IPA and SCPPA. Obligations of the City under the agreements with IPA and SCPPA constitute operating and maintenance expenses of the City’s Electric System payable prior to any of the payments required to be made on the Bonds. Agreements between the City and IPA and the City and SCPPA (other than the agreements relating to SCPPA’s Prepaid Natural Gas Project bonds) are on a “take-or-pay” basis, which requires payments to be made whether or not applicable projects are operating or operable, or whether the output from such projects is suspended, interfered with, reduced, curtailed or terminated in whole or in part. In addition, all of these agreements (other than the agreements relating to SCPPA’s Prepaid Natural Gas Project bonds and the Natural Gas Project bonds) contain “step up” provisions obligating the City to pay a share of the principal obligations

of a defaulting participant. The City's participation and share of principal obligations (without giving effect to interest due on the obligations or any "step up" provisions) for each of the joint powers agency projects in which it participates are shown in the following table.

**Outstanding Debt of Joint Powers Agencies and Burbank's Share  
As of December 1, 2009**

	Principal Amount of Outstanding Debt	City's Participation <sup>(1)</sup>	City's Share of Principal Amount of Outstanding Debt <sup>(2)</sup>
<b>Intermountain Power Agency</b>			
Intermountain Power Project <sup>(3)</sup>	\$2,679,869,167	3.371%	\$ 90,338,390
<b>Southern California Public Power Authority</b>			
Palo Verde Nuclear Generating Station	89,470,000	4.400	3,936,680
Southern Transmission System	900,705,000	4.498	40,513,711
Hoover Dam Uprating	14,495,000	15.957	2,312,967
Magnolia Power Project <sup>(4)</sup>	366,555,000	32.350	118,580,543
Mead-Phoenix Transmission	60,640,000	15.400	9,338,560
Mead-Adelanto Transmission	190,440,000	11.534	21,964,778
Prepaid Natural Gas Project <sup>(5)</sup>	333,370,000	33.099	110,342,136
Natural Gas Project	39,345,000	100.000	39,345,000
Tieton Hydropower Project	<u>47,655,000</u>	50.000	<u>23,827,000</u>
<b>Total</b>	<u><b>\$4,722,544,167</b></u>		<u><b>\$460,499,765</b></u>

(1) Obligation is subject to increase upon default of another project participant (other than with respect to SCPA's Prepaid Natural Gas Project bonds and the Natural Gas Project bonds).

(2) Excludes interest.

(3) Includes commercial paper, subordinate notes and full accreted value at maturity for all capital appreciation bonds. Inclusive of the IPP Excess Power Sales Agreement, after reduction for portion withdrawn by Utah members in accordance with such Agreement.

(4) Excludes bonds relating solely to City of Cerritos.

(5) The Prepaid Natural Gas Project is a "take-and-pay" contract. Payments by the City are contingent upon the delivery of gas.

Source: BWP.

For the Fiscal Year ended June 30, 2009, the City's payments of debt service on its joint powers agency obligations aggregated approximately \$29 million. As of December 1, 2009, a portion of the joint powers agency obligation debt service was variable rate debt. Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at rates substantially in excess of the current variable rate on such bonds. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity agreements may result in the acceleration of scheduled payment of the principal of such variable rate joint powers agency obligations. In addition, swap agreements entered into by the joint powers agencies in connection with certain of such obligations are subject to early termination under certain circumstances, in which event the joint powers agency could owe substantial termination payments to the applicable swap provider (an allocable portion of such payments the project participants would be obligated for).

## Historical Net Revenues of the Electric System

The following table sets forth summaries of net revenues of the Electric System for the five Fiscal Years ended June 30, 2009 together with debt service coverage ratios based on audited financial information.

### Burbank Water and Power Historical Net Revenues and Debt Service Coverage Electric System (\$000's)

	2009	2008	2007	2006	2005
Operating revenue:					
Retail	\$158,039	\$155,514	\$153,916	\$143,487	\$136,304
Wholesale	120,716	220,177	207,259	195,512	110,037
Other <sup>(1)</sup>	<u>8,834</u>	<u>6,476</u>	<u>7,585</u>	<u>6,159</u>	<u>5,494</u>
Total Operating Revenue	\$287,589	\$382,167	\$368,760	\$345,158	\$251,835
Operating expenses:					
Retail (Fuel, Purchased Power, and Power Operations)	\$ 95,043	\$105,481	\$ 93,288	\$ 88,495	\$ 73,008
Wholesale	116,544	212,823	201,132	188,655	105,856
Other (Distribution and Other O&M)	<u>41,246</u>	<u>37,932</u>	<u>38,462</u>	<u>37,369</u>	<u>31,500</u>
Total operating expenses <sup>(2)</sup>	\$252,833	\$356,236	\$332,882	\$314,519	\$210,364
Operating income/(loss)	\$ 34,756	\$ 25,931	\$ 35,878	\$ 30,639	\$ 41,471
Other non-operating income <sup>(3)</sup>	<u>2,191</u>	<u>5,191</u>	<u>5,580</u>	<u>2,356</u>	<u>1,848</u>
Net Income Available for Debt Service (a)	36,947	31,122	41,458	32,995	43,319
In Lieu of Taxes (b)	7,871	7,642	7,658	7,112	6,803
Debt Service (c)	<u>12,386</u>	<u>12,388</u>	<u>12,385</u>	<u>12,406</u>	<u>11,984</u>
Rate Covenant Coverage (Excludes In Lieu) (a) / (c)	2.98x	2.51x	3.35x	2.66x	3.61x
Debt Service Coverage (Includes In Lieu) (a - b) / (c)	2.35x	1.90x	2.73x	2.09x	3.05x
Revenues Available After Debt Service (a) - (b) - (c)	\$16,690	\$11,092	\$21,413	\$13,477	\$24,532

<sup>(1)</sup> Other operating revenues include transmission, telecommunications and other miscellaneous revenues.

<sup>(2)</sup> Operating expenses exclude depreciation, in lieu of taxes, and interest expense.

<sup>(3)</sup> Other revenues available for debt service include interest income plus other non-operating revenues less other non-operating expenses. Other revenues do not include capital contributions.

## Condensed Balance Sheet Information

The following Condensed Balance Sheet for the five Fiscal Years ended June 30, 2005 through June 30, 2009 has been prepared by the City based on audited financial information.

### City of Burbank Electric Utility Fund Condensed Balance Sheet (\$000's)

	Fiscal Year Ended June 30,				
	2009	2008	2007	2006	2005
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 39,645	\$ 45,085	\$ 67,481	\$ 59,233	\$ 65,272
Accounts receivable, net	13,629	32,189	26,093	32,894	19,436
Interest receivable	318	518	687	441	310
Materials and supplies	5,744	4,221	5,286	4,878	4,754
Deposits and prepaid expenses	21,427	17,631	15,207	8,461	1,388
Total current assets	<u>\$ 80,763</u>	<u>\$99,644</u>	<u>\$114,754</u>	<u>\$105,907</u>	<u>\$ 91,160</u>
Restricted cash and investments:					
Restricted nonpooled investments	10,249	10,699	10,766	11,822	12,914
Total restricted cash and investments	<u>10,249</u>	<u>10,699</u>	<u>10,766</u>	<u>11,822</u>	<u>12,914</u>
Utility plant and equipment:					
Utility plant and equipment	331,547	316,458	298,022	292,588	275,478
Construction in progress	52,174	49,473	35,082	27,191	30,958
Total utility plant and equipment	383,721	365,931	333,104	319,779	306,436
Less accumulated depreciation	(153,476)	(140,782)	(128,453)	(121,597)	(110,022)
Net utility plant and equipment	<u>230,245</u>	<u>225,149</u>	<u>204,651</u>	<u>198,182</u>	<u>196,414</u>
Other noncurrent assets:					
Rights to purchase power	1,335	1,335	1,335	1,053	1,126
Advances receivable	2,167	2,725	2,853	-	-
Deferred bond issuance and acquisition costs	404	460	515	570	626
Total other noncurrent assets	<u>3,906</u>	<u>4,520</u>	<u>4,703</u>	<u>1,623</u>	<u>1,752</u>
Total assets	<u>\$325,163</u>	<u>\$340,012</u>	<u>\$334,874</u>	<u>\$317,534</u>	<u>\$302,240</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 8,245	\$ 30,259	\$ 26,072	\$ 21,647	\$ 12,195
Current portion of compensated absences	324	214	232	194	208
Accrued payroll	12	11	943	989	867
Interest payable	93	119	144	173	178
Due to the City of Burbank	411	463	394	367	363
Customer deposits	14,440	13,369	12,186	10,789	8,889
Current portion of revenue bonds	9,125	8,805	8,505	8,230	7,980
Total current liabilities	<u>\$ 32,650</u>	<u>\$ 53,240</u>	<u>\$ 48,476</u>	<u>\$ 42,389</u>	<u>\$ 30,680</u>
Long-term liabilities, net of current portion:					
Revenue bonds	\$ 61,197	\$ 70,287	\$ 79,058	\$ 87,528	\$ 95,724
Compensated absences	4,554	3,800	3,625	3,394	3,192
Total long-term liabilities	<u>\$ 65,751</u>	<u>\$ 74,087</u>	<u>\$ 82,683</u>	<u>\$ 90,922</u>	<u>\$ 98,916</u>
Total liabilities	<u>\$ 98,401</u>	<u>\$127,327</u>	<u>\$ 131,159</u>	<u>\$ 133,311</u>	<u>129,596</u>
Fund equity:					
Total net assets	<u>226,762</u>	<u>212,685</u>	<u>203,715</u>	<u>184,223</u>	<u>172,644</u>
Total liabilities and net assets	<u>\$325,163</u>	<u>\$340,012</u>	<u>\$334,874</u>	<u>\$317,534</u>	<u>\$302,240</u>

Source: BWP.

## **Transfers to the City's General Fund**

Under the City Charter, the City Council may transfer to the City's General Fund up to 5% of the Electric System's gross sales of water and electricity in lieu of taxes (exclusive of wholesale sales to other public or privately-owned utilities). The transfers to the City's General Fund for such electricity sales for the Fiscal Years ended June 30, 2009 and June 30, 2008 were approximately \$7,871,000 and \$7,642,000, respectively (constituting approximately 5% of such gross electricity sales for each Fiscal Year). The budgeted transfer to the General Fund of the City for the Fiscal Year ending June 30, 2010 is expected to be approximately \$7,995,000 or 5% of such expected gross electricity sales for such Fiscal Year.

In addition, under the City Charter, the City Council may transfer to the City's General Fund up to 2.0% of the Electric System's gross sales of electricity (exclusive of wholesale sales of electricity to other public or privately-owned utilities) to pay for the operation of the City's street lights. The transfers to the General Fund for such purpose for the Fiscal Years ended June 30, 2009 and June 30, 2008 were approximately \$2,239,000 and \$2,167,000, respectively (constituting approximately 1.5% of such gross electricity sales for each Fiscal Year). The budgeted transfer to the General Fund for the Fiscal Year ending June 30, 2010 is expected to be approximately \$2,399,000 or 1.5% of such expected gross electricity sales for such Fiscal Year.

## **Seismic Activity**

The City is located in a region of seismic activity. According to the 2007 Uniform California Earthquake Rupture Forecast ("UCERF"), California has a 99.7% chance of having a magnitude 6.7 or larger earthquake during the next 30 years. The UCERF was organized by the Southern California Earthquake Center and was prepared by the 2007 Working Group on California Earthquake Probabilities, a multi-disciplinary collaboration of scientists and engineers. The UCERF indicates that the likelihood of an earthquake of magnitude 7.5 or greater in the next 30 years is 46%. According to the UCERF, such an earthquake is more likely to occur in the southern half of the State (37% chance in 30 years) than in the northern half (15% chance in 30 years). It is impossible to accurately predict the cost or effect of an earthquake on the Electric System or on BWP's ability to provide continued uninterrupted service to all parts of its service area.

The principal earthquake fault in the Los Angeles and City area is the San Andreas Fault, which extends an estimated 700 miles from north of the San Francisco area to the Salton Sea in Southern California. At its nearest point, it is approximately 30 miles north of the City. Significant earthquakes that have occurred in recent years in the Los Angeles and Burbank area, including the Northridge earthquake in 1994, have resulted in only temporary electrical outages in the Electric System and, after inspection to determine the scope of any damage, only minor damage to the Electric System. In the event of a severe earthquake, however, the amount of moneys available to pay debt service on the 2010 Bonds could be reduced significantly.

## **Litigation**

At any given time, including the present, there are certain other claims and disputes, including those currently in litigation, that arise in the normal course of Electric System enterprise activities. Such matters could, if determined adversely to the City, affect expenditures by the City, and in some cases, its Electric System revenues.

***State and Federal Investigations; Claims of Overcharging.*** State and federal authorities continue to conduct investigations and other proceedings concerning various aspects of the California energy crisis of 2000 and 2001. These include, for example, investigations by the Federal Energy

Regulatory Commission (“FERC”) into alleged overcharging for the sale (or related transactions) of electricity (the “Refund Cases”) and alleged manipulation of the electricity market (the “Gaming Cases”). The City cooperated in these investigations and provided numerous documents in response to requests for information regarding its activities during the California energy crisis. Based upon FERC staff’s recommendation, FERC dismissed the City from the Gaming Cases; however, appeals by the State and others regarding individual settlements in the Gaming Cases could adversely affect the City.

In September 2005, the Ninth Circuit Court of Appeals ruled in a case entitled *Bonneville Power Administration v. FERC* that FERC does not have refund jurisdiction under Section 206 of the Federal Power Act with respect to governmental entities and non-public utilities. On December 5, 2005, in response to the court’s decision, the California Electricity Oversight Board, Pacific Gas & Electric Company, Southern California Edison and San Diego Gas & Electric Company filed a claim with the City under state law for damages against the City and other publicly-owned utilities in which they claim publicly-owned utilities that sold power in the ISO and California Power Exchange markets are contractually obligated to refund the difference between the amount originally received and the prices adopted by FERC in the Refund Cases. On December 28, 2005, the California Department of Water Resources (“DWR”) submitted a similar claim to the City under state law that also sought a refund for alleged overcharges associated with bilateral transactions between DWR and the City during the same period. On March 16, 2006, Southern California Edison, Pacific Gas & Electric Company and the California Electricity Oversight Board filed a lawsuit against the City and others in the United States District Court for the Eastern District of California, Sacramento Division based upon the same claims of overcharging. A similar lawsuit was filed by San Diego Gas & Electric Company on March 21, 2006 in the same court. These cases were assigned to the same district judge. On March 16, 2007, the federal court cases were dismissed on grounds of lack of subject matter jurisdiction pursuant to motions filed by the City and other defendants. The plaintiffs have appealed that ruling to the Ninth Circuit Court of Appeals. On April 9, 2007, Southern California Edison, Pacific Gas & Electric Company, San Diego Gas & Electric Company, and the California Electricity Oversight Board filed a new state court action on the same claims in the Los Angeles County Superior Court. Certain defendants have settled out of the state court action, while others (including the City) filed answers. The matter is in the discovery phase with a scheduled trial date of May 13, 2010.

Meanwhile, on June 14, 2006, DWR filed a civil action against the City on its aforementioned claim in Sacramento County Superior, but voluntarily dismissed its complaint on January 29, 2007 and has not since re-filed it.

The amount being claimed against the City is not specified in any of the claims or lawsuits that have been filed to date. The City does not believe that any of these claims or litigation against the City has merit, but the City is unable to predict the outcome of these matters.

***Western Electricity Coordinating Council (“WECC”) Compliance Audit.*** On March 12 and June 11, 2008, WECC conducted an off-site, non-public Compliance Audit of the City (“Compliance Audit”), pursuant to the North American Electric Reliability Corporation (“NERC”) Rules of Procedure, at WECC’s offices in Salt Lake City, Utah. The WECC Compliance Audits and Investigations Staff reviewed the applicable NERC Reliability Standards and the applicable WECC Regional Reliability Standards. The Compliance Audit revealed three (3) alleged violations of the Reliability Standards. In addition, the City itself submitted Self Report Forms alleging violations of six (6) NERC Reliability Standards. WECC has reviewed these six (6) self reported violations and confirmed that an alleged violation did occur.

On August 11, 2009, the City entered into a settlement in principle (i.e., subject to the necessary approvals at the City) with WECC to resolve the alleged violations by the City of the NERC reliability

standards. Under the settlement in principle, the City would agree to pay a specified amount to resolve the alleged violations. The settlement in principal has been approved by the City Council, and the formal settlement agreement is awaiting approval by the NERC Board of Directors and FERC. The City should learn if the formal settlement has been approved and accepted by NERC and FERC within the next three (3) to six (6) months. The City does not expect the settlement to materially adversely affect its finances or operations.

## **DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS**

### **Background; California Electric Market Deregulation**

In 1996, California partially deregulated its electric energy market. As a consequence of the partial deregulation, the California investor-owned utilities (the "IOUs") sold a large portion of their generation resources and began to purchase significant amounts of electricity. During portions of 2000 and 2001, the market price of electricity in California went through significant fluctuations; the impacts of which are well documented.

A number of state and federal proceedings began as a result of the market dysfunction of 2000 and 2001. These included investigations into alleged market manipulation, which for the most part have either ended or are in the final appellate stages. Other proceedings are ongoing, such as litigation at FERC regarding the need for refunds due to the alleged overcharging for the sale of electricity (which proceedings initially included sales by municipal utilities but were dismissed for lack of jurisdiction). Other cases have been or are expected to be remanded to FERC after appeals to the Ninth Circuit. Although it was ultimately found that FERC lacked jurisdiction to order refunds for alleged overcharging by non-jurisdictional entities, several plaintiffs have pursued remedies in state and federal courts based on a contract and quasi-contract theory. The City is unable to predict the final outcome of existing investigations and proceedings regarding California's energy crisis or whether further investigations, proceedings, litigation or other actions will follow.

During 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State. Licenses for new power plants have been issued by the CEC, construction on several power plants has been completed and construction of additional power plants is underway. However, progress on new transmission line projects within California has been slow. Therefore, while there has been some progress in addressing these issues, uncertainty remains. There has also been ongoing substantial volatility in the cost of natural gas, which is the fuel source for many of California's electric generating units. State agencies have issued warnings that further power shortages are possible for Southern California. As a result of the foregoing and other factors, no assurance can be given that measures undertaken during the last several years, together with measures to be taken in the future, will prevent the recurrence of shortages, price volatility or other energy problems that have adversely affected BWP and other California electric utilities in the past.

### **State Legislation**

A number of bills affecting the electric utility industry have been introduced or enacted by the California Legislature. In general, these bills provide for reduced greenhouse gas emission standards and greater investment in energy-efficient and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards. The following is a brief summary of certain of these bills.

**Greenhouse Gas Emissions.** On June 1, 2005, Governor Arnold Schwarzenegger (the "Governor") signed Executive Order S-3-05, which placed an emphasis on efforts to reduce greenhouse

gas emissions by establishing statewide greenhouse gas reduction targets. The targets are: (i) a reduction to 2000 emissions levels by 2010; (ii) a reduction to 1990 levels by 2020; and (iii) a reduction to 80% below 1990 levels by 2050. The Executive Order also called for the California Environmental Protection Agency to lead a multi-agency effort to examine the impacts of climate change on California and develop strategies and mitigation plans to achieve the targets. On April 25, 2006, the Governor also signed Executive Order S-06-06 which directs the State to meet a 20% biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

The Governor signed Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"), which became effective as law on January 1, 2007. The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas emission levels by 2020. In addition, the GWSA establishes a mandatory reporting program for all IOUs, municipal utilities and other load-serving utilities to inventory and report greenhouse gas emissions to the California Air Resources Board ("CARB") and requires CARB to adopt regulations for significant greenhouse gas emission sources (allowing CARB to design a "cap-and-trade" system) and gives CARB the authority to enforce such regulations beginning in 2012. On December 11, 2008, CARB adopted a "scoping plan" to reduce greenhouse gas emissions which includes a mixed approach of market structures, regulation, fees and voluntary measures. The scoping plan includes a cap-and-trade system that covers 85% of all California greenhouse gas emissions and will be implemented in coordination with the Western Climate Initiative regime, which is a regional zone consisting of seven states and three Canadian provinces that is in the process of establishing a greenhouse gas trading framework. CARB has begun developing regulations for greenhouse gas emissions limits and reduction measures. The regulations will go into effect and be enforceable beginning January 1, 2012. The City may be adversely affected by implementation of an auction type cap-and-trade system, which would require the City to purchase carbon credits to offset the higher than average carbon emissions of its resource portfolio.

In addition to the GWSA, Senate Bill 1368 also became effective as law on January 1, 2007 and provides for an emission performance standard, restricting new investments in baseload fossil fuel electric generating resources that exceed the rate of emissions for greenhouse gases for existing combined-cycle natural gas baseload generation and seeks to allow the CEC to establish a regulatory framework necessary to enforce the greenhouse gas emission performance standard for publicly-owned utilities. The CPUC has the similar responsibility for the IOUs. The revised proposed CEC regulations were approved by the Office of Administrative Law on October 16, 2007. The regulations promulgated by the CEC prohibit any investment in baseload generation that does not meet the emission performance standard of 1,100 pounds of CO<sub>2</sub> per MWh of electricity, with limited exceptions for routine maintenance, requirements of pre-existing contractual commitments, or threat of significant financial harm.

Meanwhile, Assembly Bill 1925, signed by the Governor on September 26, 2006, requires the CEC to develop a cost effective strategy for the geologic sequestration and management of industrial carbon dioxide. Also on September 26, 2006, the Governor signed Senate Bill 1686, which authorizes the Wildlife Conservation Board (the "WCB") to take into account the potential of forestlands to beneficially reduce or sequester greenhouse gas emissions when it prioritizes funds available for proposed acquisitions. Senate Bill 1686 also specifies that the WCB may use policies, protocols and other relevant information developed by the California Climate Action Registry in determining a project's potential to reduce or sequester greenhouse gas emissions.

***Energy Procurement and Efficiency Reporting.*** Senate Bill 1037, signed by the Governor on September 29, 2005, requires that each municipal electric utility, including the City, prior to procuring new energy generation resources, first acquire all available energy efficiency, demand reduction, and renewable resources that are cost effective, reliable and feasible. Senate Bill 1037 also requires each

municipal electric utility to report annually to its customers and to the CEC its investment in energy efficiency and demand reduction programs.

Further, Assembly Bill 2021, signed by the Governor on September 29, 2006, requires that the publicly-owned utilities establish, report, and explain the basis of the annual energy efficiency and demand reduction targets by June 1, 2007 and every three years thereafter for a ten-year horizon. Future reporting requirements under Assembly Bill 2021 include: (i) the identification of sources of funding for the investment in energy efficiency and demand reduction programs; (ii) the methodologies and input assumptions used to determine cost-effectiveness; and (iii) the results of an independent evaluation to measure and verify energy efficiency savings and demand reduction program impacts. The information obtained from the local publicly-owned utilities is being used by the CEC to present the progress made by the publicly-owned utilities on the State's goal of reducing electrical consumption by 10% in ten years and amelioration with the greenhouse gas targets presented in Executive Order S-3-05 signed by the Governor on June 1, 2005. In addition, the CEC will provide recommendations for improvement to assist each local publicly-owned utility in achieving cost-effective, reliable, and feasible savings in conjunction with the established targets for reduction.

***Renewable Portfolio Standards.*** In September 2002, the California Legislature enacted and the Governor signed into law Senate Bill 1078. Senate Bill 1078 requires that the IOUs adopt a Renewable Portfolio Standard ("RPS") to meet a minimum of 1% of retail energy sales needs each year from renewable resources and to meet a goal of 20% of their retail energy needs from renewable energy resources by the year 2017. Senate Bill 1078 also directed the State's municipal electric utilities to implement and enforce a RPS that recognizes the intent of the Legislature to encourage development of renewable resources, taking into consideration the impact on a utility's standard on rates, reliability, financial resources, and the goal of environmental improvement. The City has adopted a RPS as required by Senate Bill 1078. On September 26, 2006, the Governor signed Senate Bill 107 into law, which requires IOUs to have 20% of their electricity come from renewable sources by 2010 and prescribes that municipal utilities meet the intent of the legislation. On November 17, 2008 the Governor signed Executive Order S-14-08. Among other things, Executive Order S-14-08 provides that the RPS target established for California shall require retail electricity sellers to serve 33% of their loads with eligible renewable energy resources by 2020. On September 15, 2009, the Governor signed Executive Order S-21-09. Executive Order S-21-09 provides, among other things, that CARB is to establish a regulation consistent with the 33% RPS target established in Executive Order S-14-08 by July 31, 2010 and that CARB work with the CEC and CPUC to ensure that such regulation will build upon the existing RPS program and will regulate all California load serving entities, including publicly-owned utilities. In addition, Executive Order S-21-09 provides that CARB may delegate policy development and implementation to CEC and CPUC, that CARB is to consult with California Independent System Operator ("ISO") and other balancing authorities on impacts on reliability, renewable integration requirements and interactions with wholesale power markets in carrying out the provisions of Executive Order S-21-09, and that CARB is to establish the highest priority for those resources with the least environmental costs and impacts on public health that can be developed most quickly and that support reliable, efficient and cost-effective electricity system operations, including resources and facilities located throughout the Western interconnection.

Since the implementation of Senate Bill 1078, the CPUC and the CEC have taken a number of actions that have had an impact on the renewable energy goals set by the legislation. In order to overcome the challenges associated with meeting accelerated RPS goals, the CPUC and the CEC supported the implementation of a renewable energy certificate ("REC") trading system to meet the accelerated RPS goals. Senate Bill 107 allows this flexibility, with the condition that the energy is delivered to an in-state trading hub. In parallel, pursuant to Senate Bill 1078, the CEC, collaboratively with the Western Governors' Association and the WECC, has established the Western Renewable Energy

Generation Information System (“WREGIS”), which is expected to ensure the integrity of RECs and prevent the double counting of the certificates. The electronic tracking system became operational in 2007. On October 29, 2008, a CPUC Administrative Law Judge in Rulemaking 06-02-012 issued a proposed decision, which if approved by the CPUC, would authorize the use of WREGIS in tracking, and approve the purchase and sale of, tradable renewable energy credits for the IOUs.

**Solar Power.** On August 21, 2006, the Governor signed into law Senate Bill 1 (also known as the “California Solar Initiative”). This legislation requires municipal utilities, including the City, to establish a program supporting the stated goal of the legislation to install 3,000 MW of photovoltaic energy in California. Municipal utilities are also required to establish eligibility criteria in collaboration with the CEC for the funding of solar energy systems receiving ratepayer funded incentives. The legislation gives a municipal utility the choice of selecting an incentive based on the installed capacity, starting at \$2.80 per watt, or based on the energy produced by the solar energy system, measured in kilowatt-hours. Incentives would be required to decrease at a minimum average rate of 7% per year. Municipal utilities also have to meet certain reporting requirements regarding the installed capacity, number of installed systems, number of applicants, amount of awarded incentives and the contribution toward the program’s goals.

### **Future Regulation**

The electric industry is subject to recurrent reform. States routinely consider changes to the way in which they regulate the electric industry. Recently, both further deregulation and forms of additional regulation have been proposed for the industry, which has been highly regulated throughout its history. The City is unable to predict at this time the impact any such considerations will have on the operations and finances of BWP or the electric utility industry generally.

### **Impact of Developments on the City**

The effect of these developments in the California energy markets on the City cannot be fully ascertained at this time. Also, volatility in energy prices in California may return due to a variety of factors which affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, the adequacy of generation resources to meet peak demands, the availability and cost of renewable energy, the impact of greenhouse emission legislation and regulations, fuel costs and availability, weather effects on customer demand, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the Electric System’s revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Electric System.

## **OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY**

### **Federal Energy Legislation**

**Energy Policy Act of 2005.** In August 2005, President George W. Bush signed the Energy Policy Act of 2005 (“EPACT 2005”). EPACT 2005 addresses a wide array of energy matters that could affect the entire electric utility industry, including the Electric System of the City. It expands FERC’s jurisdiction to require municipal utilities that sell more than eight million MWhs of energy per year to pay refunds under certain circumstances for sales into organized markets. EPACT 2005 also provides for mandatory reliability standards to increase system reliability and minimize blackouts, in addition to criminal and civil penalties for manipulative energy trading practices. EPACT 2005 authorizes FERC to issue permits to construct or modify transmission facilities located in a national interest electric

transmission corridor if FERC determines that the statutory conditions are met. EPACT 2005 also requires the creation of an electric reliability organization (“ERO”) to establish and enforce, under FERC supervision, mandatory reliability standards to increase system reliability and minimize blackouts. Failure to comply with such mandatory standards exposes a utility to significant fines and penalties by the ERO.

Under EPACT 2005, IOUs must offer each of its customer classes a time-based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state has unreasonably withheld approval. EPACT 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies, including a new program for tax credit bonds for local governments, like the City, to finance certain renewable energy facilities. EPACT 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection and provides incentives for the construction of new nuclear plants.

The City is unable to predict at this time the impact that EPACT 2005 will have on the operations and finances of the Electric System or the electric utility industry generally.

***NERC Reliability Standards.*** EPACT 2005 required FERC to certify an ERO to develop mandatory and enforceable Reliability Standards, subject to FERC review and approval. The Reliability Standards apply to users, owners and operators of the Bulk-Power System, as more specifically set forth in each Reliability Standard. On February 3, 2006, FERC issued Order 672, which certified the North American Electric Reliability Corporation (“NERC”) as the ERO. Many Reliability Standards have since been approved by FERC.

The ERO or the entities to which NERC has delegated enforcement authority through an agreement approved by FERC (“Regional Entities”), such as the WECC, may enforce the Reliability Standards, subject to FERC oversight, or FERC may independently enforce Reliability Standards. Potential monetary sanctions include fines of up to \$1 million per violation per day. Order 693 further provided the ERO and Regional Entities with the discretion necessary to assess penalties for such violations, while also having discretion to calculate a penalty without collecting the penalty if circumstances warrant.

***Other Legislation.*** Numerous bills have been under consideration in Congress concerning United States energy policies and various environmental matters, including those related to energy supplies, global warming and water quality. Many of these bills, if enacted into law, could have a material impact on BWP and the electric utility industry generally.

## **ISO FERC Filings**

***MRTU Filing; Implementation of MRTU.*** On February 9, 2006, the ISO filed with FERC the first set of tariff language to implement its FERC ordered overhaul of the ISO markets. After many amendments and modifications, the ISO implemented MRTU on April 1, 2009.

The new market design has only been in place for about nine months, so it is premature to determine the full scope of potential impacts. The ISO’s market redesign included a move to locational marginal pricing (“LMP”), with prices to load assessed based on the aggregated costs of power, transmission congestion and losses to serve all load within fairly large zones. The FERC has ordered the ISO to increase the granularity of its LMP zones, which may affect costs for the City. The ISO has

already begun a stakeholder process on this issue, but at this point it is too early to anticipate what the proposal will look like, or to estimate its cost impacts.

No adequate assurances can be given by the City that unforeseen events will not occur under MRTU, particularly during the period of initial implementation and operation; thus, it is impossible to predict at this time the ultimate impact of MRTU on the City and the California electric utility industry generally.

***Resource Adequacy Requirements.*** On March 13, 2006, the ISO filed with FERC a tariff amendment to establish an Interim Reliability Requirements Program (the “IRR Program”). The IRR Program incorporated most of the CPUC’s resource adequacy requirements into the ISO Tariff beginning in June 2006. The ISO’s filing imposed the IRR Program requirements on LSEs (CPUC-jurisdictional entities and non-CPUC-jurisdictional entities). On May 12, 2006, FERC approved, for the most part, the ISO’s IRR Program filing.

The IRR Program exempted load-following Metered Subsystems (“MSSs”) from most of the ISO Tariff resource adequacy provisions, and the tariff also provides significant deference to the local governing boards of municipal and cooperative entities in establishing qualifying reliability standards. The CPUC has subsequently expanded upon its initial resource adequacy requirements, in particular by adding local capacity requirements to make certain that sufficient generating capacity is procured in particular areas where it is lacking. The ISO has also incorporated these provisions into its tariff, which FERC has approved. The IRR Program sunset upon implementation of MRTU. Under MRTU, certain of the local capacity requirements do apply to MSS entities. For example, to the extent that a LSE fails to meet such a requirement, it is subject to payment of ISO procurement costs of replacement capacity. To the extent that a shortfall cannot be attributed to a specific LSE, the costs will be spread as part of market uplift charges. These risks will apply in the same manner to all LSEs.

Finally, the CPUC is currently studying the possibility of meeting future capacity needs by either extending the existing resource adequacy program with some modification or by instituting centralized capacity markets. It is premature to predict the outcome of that proceeding, although it is likely that any outcome will be extended to all LSEs through the ISO tariff. While either path carries some risk of increased costs for the market, it is too soon to predict what the decision will be or the details of implementation.

## **Environmental Issues**

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any City facility or project will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures, reduced operating levels or the shutdown of individual units not in compliance. In addition, increased environmental regulations have, and may in the future, create certain barriers to new facility development and require modification of existing facilities and may result in additional costs for affected resources.

There is concern by the public, the scientific community and Congress regarding environmental damage resulting from the use of fossil fuels. Congressional support for the increased regulation of air, water and soil contaminants is building, and there are a number of pending or recently enacted legislative proposals which may affect the electric utility industry. The above-mentioned concerns and

Congressional support have led to an increased level of environmental enforcement by the Environmental Protection Agency and other state and local authorities. Increased environmental regulation under the provisions of the Clean Air Act have created certain barriers to new facility development and modification of existing facilities. The additional costs, including time, human resources, uncertainty and delay, could affect the rate of return relating to investment in power project development. As such, there may be additional costs for purchased power from affected resources. Moreover, these additional costs may upset existing cost assumptions for utilities.

The City cannot predict at this time whether any additional legislation or rules will be enacted which will affect the City's operations, and if such laws or rules are enacted, what the costs to the City might be in the future because of such action.

A number of studies have been conducted regarding the potential long-term health effects resulting from exposure to electric and magnetic fields ("EMF") created by high voltage transmission and distribution equipment as well as by electrical appliances, computers, and other electrical devices. Additional studies are being conducted to determine the relationship between EMF and certain adverse health effects, if any. At this time, it is not possible to predict the extent of the costs and other impacts, if any, which the EMF concern may have on electric utilities, including the Electric System.

### **Other Factors**

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as occurred in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets, (r) natural disasters or other physical calamities, including, but not limited to, earthquakes and floods and (s) changes to the climate. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on the business operations and financial condition of BWP, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2009 Bonds should obtain and review such information.

### **Federal Rate Regulation**

The City sets rates, fees and charges for electric service. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the general regulatory jurisdiction of the CPUC and presently neither the CPUC nor any other regulatory authority of the State nor the FERC approves such rates and charges. It is possible that future legislative and/or regulatory changes could subject the rates and/or service area of the City to the jurisdiction of the CPUC or to other limitations or requirements.

FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act (“Part I”), although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. There is a question as to whether FERC has jurisdiction at all to modify rates for municipalities which are authorized to set their own rates. FERC and its predecessor, the Federal Power Commission (the “FPC”), have indicated on a number of occasions that municipalities and other public agencies authorized to set their own rates are not subject to FERC’s regulatory jurisdiction over rates. On the other hand, the FPC in at least one decision suggested a contrary result. Even if FERC were to assert jurisdiction over the services and charges associated with such hydroelectric projects, it is unlikely that any reasonable rates and charges would be found to be contrary to applicable federal regulatory standards.

Under the 1992 revisions to the Federal Power Act, enacted as the Energy Policy Act of 1992 (the “Energy Policy Act”), FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at cost-based rates.

FERC also has jurisdiction to regulate those cost-based rates, and has asserted that jurisdiction in *Minnesota Municipal Power Agency v. Southern Minnesota Municipal Power Agency*, 66 FERC ¶61,223 (1994) and 68 FERC ¶61,060 (1994). However, FERC’s asserted jurisdiction over municipal rates does not extend to the rates for power sales, and applies only to transmission service ordered by FERC pursuant to Section 211 of the Federal Power Act, as amended by the Energy Policy Act. Neither the City nor the joint powers agencies with which the City has contracted which developed the transmission assets are providing any such transmission service to others. No assurance can be given that such service will not be requested in the future.

## **CONSTITUTIONAL LIMITATIONS ON GOVERNMENTAL SPENDING**

### **Articles XIII C and XIII D of the State Constitution**

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters of the State on November 5, 1996. Proposition 218 added Articles XIII C and XIII D to the State Constitution. Article XIII D creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and “property-related” fees and charges. Article XIII D explicitly exempts fees for the provision of electric service from the provisions of such article. Nevertheless, Proposition 218 could indirectly affect some California

municipally-owned electric utilities. For example, to the extent Proposition 218 reduces a city's general fund revenues, that city could seek to increase the transfers from its electric utility to its general fund.

Article XIIC expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. The terms "fees and charges" are not defined in Article XIIC, although the California Supreme Court recently held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006), that the initiative power described in Article XIIC may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIID. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIID) might be subject to the initiative provision of Article XIIC, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City believes that even if the electric rates of the City are subject to the initiative power, under Article XIIC or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2010 Bonds by virtue of the "impairment of contracts clause" of the United States and California Constitutions.

### **Future Initiatives**

Articles XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, including presently, other initiatives have been, and could be, proposed, and if qualified for the ballot, could be adopted affecting BWP's revenues or operations. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by BWP.

One such initiative, recently qualified for the June 2010 ballot, is Proposition 16 which, if approved by the electorate, would require local governments to obtain the approval of two-thirds of the voters before providing electricity to new customers or expanding such service to new territories if any public funds or bonds are involved, subject to certain limited exceptions for specified types of projects. This measure would require the approval by voters to be in the jurisdiction of the local government and any new territory to be served.

## **TAX MATTERS**

### **Series 2010A Bonds**

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2010A Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2010A Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue of the Series 2010A Bonds. The City has covenanted in the Indenture to comply with each applicable requirement of the Code necessary to maintain the exclusion of the interest on the Series 2010A Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law interest on the Series 2010A Bonds is exempt from personal income taxes of the State and, assuming compliance with the aforementioned covenant, interest on the Series 2010A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is of the further opinion that the Series 2010A Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that the interest on the Series 2010A Bonds is not

treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, the receipt or accrual of interest on the Series 2010A Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75% of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

To the extent that a purchaser of a Series 2010A Bond acquires that Series 2010A Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the Series 2010A Bond (determined, in the case of a callable Series 2010A Bond, under the assumption described below), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Series 2010A Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Series 2010A Bond to the owner. Any person considering purchasing a Series 2010A Bond at a price that includes bond premium should consult his or her tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Series 2010A Bond.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series 2010A Bonds may affect the tax status of interest on the Series 2010A Bonds or the tax consequences of the ownership of the Series 2010A Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Series 2010A Bonds from personal income taxation by the State or of the exclusion of the interest on the Series 2010A Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel express no opinion as to any federal, state or local tax law consequences with respect to the Series 2010A Bonds, or the interest thereon, if any action is taken with respect to the Series 2010A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Series 2010A Bonds is exempt from California personal income tax and that interest on the Series 2010A Bonds is excluded from the gross income of the owners thereof for federal income tax purposes, an owner’s federal, state or local tax liability may otherwise be affected by the ownership or disposition of the Series 2010A Bonds. The nature and extent of these other tax consequences will depend upon the owner’s other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series 2010A Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2010A Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Series 2010A Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2010A Bonds, (iii) interest on the Series 2010A

Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Series 2010A Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Series 2010A Bonds, and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Series 2010A Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Series 2010A Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2010A Bonds, the City may have different or conflicting interests from the owners of the Series 2010A Bonds. Public awareness of any future audit of the Series 2010A Bonds could adversely affect the value and liquidity of the Series 2010A Bonds during the pendency of the audit, regardless of the ultimate outcome.

### **Series 2010B Bonds**

***State Tax Exemption.*** In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law interest on the Series 2010B Bonds is exempt from personal income taxes of the State.

***Federal Income Tax Considerations.*** The following is a general summary of certain United States federal income tax consequences of the purchase and ownership of the Series 2010B Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly, with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The City makes no representation or covenant for the benefit of the Owners of the Series 2010B Bonds as to the present or future qualification of the Series 2010B Bonds as "build America bonds" within the meaning of Section 54AA of the Code.

The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2010B Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Series 2010B Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2010B Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Series 2010B Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Series 2010B Bonds who are United States persons within the meaning of section 7701(a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons.

Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2010B BONDS.

***Internal Revenue Service Circular 230 Notice.***

Investors should be aware that:

(i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and

(iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given to ensure compliance with IRS Circular 230.

***Interest on the Series 2010B Bonds.*** Bond Counsel has rendered no opinion regarding the exclusion pursuant to section 103(a) of the Code of interest on the Series 2010B Bonds from gross income. However, the City has taken no action to cause, and does not intend, interest on the Series 2010B Bonds to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Further, to the extent that the City designates a Series 2010B Bond as a Build America Bond, section 54AA(f)(1) of the Code provides that interest on such Series 2010B Bond shall be includible in gross income. The City intends to treat the Series 2010B Bonds as debt instruments for all federal income tax purposes, including any applicable reporting requirements under the Code. **THE CITY EXPECTS THAT THE INTEREST PAID ON A SERIES 2010B BOND GENERALLY WILL BE INCLUDED IN THE GROSS INCOME OF THE OWNER THEREOF FOR FEDERAL INCOME TAX PURPOSES WHEN RECEIVED OR ACCRUED, DEPENDING UPON THE TAX ACCOUNTING METHOD OF THAT OWNER.**

***Disposition of Series 2010B Bonds and Market Discount.*** A beneficial owner of Series 2010B Bonds will generally recognize gain or loss on the redemption, sale or exchange of the Series 2010B Bonds equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2010B Bonds. Generally, the beneficial owner's adjusted tax basis in the Series 2010B Bonds will be the beneficial owner's initial cost, increased by any original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2010B Bonds.

Under current law, a purchaser of Series 2010B Bonds who did not purchase the Series 2010B Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Series 2010B Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." In general, market discount is the amount by which the price paid for the Series 2010B Bonds by a subsequent purchaser is less than the principal amount payable at

maturity (or, in the case of Series 2010B Bonds issued with original issue discount, the sum of the Issue Price and the amount of original issue discount previously accrued on the Series 2010B Bonds), except that market discount is considered to be zero if it is less than one quarter of one percent of the principal amount times the number of complete remaining years to maturity. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Series 2010B Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The recharacterization of gain as ordinary income on a subsequent disposition of Series 2010B Bonds could have a material effect on the market value of the Series 2010B Bonds.

***Defeasance.*** Persons considering the purchase of a Series 2010B Bond should be aware that the bond documents permit the City under certain circumstances to deposit of monies or securities with the Trustee, resulting in the release of the security interests created under the Indenture (a “defeasance”). ***Such a defeasance could result in the realization of gain or loss by the owner of the Series 2010B Bond for federal income tax purposes, without any corresponding receipts of monies by the owner.*** Such gain or loss generally would be subject to recognition for the tax year in which such realization occurs, as in the case of a sale or exchange described above. In addition, for federal income tax purposes, the character and time of receipt of payments on the Series 2010B Bonds subsequent to any such defeasance could also be affected. Owners are advised to consult their own tax advisers with respect to the tax consequences resulting from such events.

***Backup Withholding.*** Under section 3406 of the Code, a beneficial owner of the Series 2010B Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” of current or accrued interest on the Series 2010B Bonds or with respect to proceeds received from a disposition of the Series 2010B Bonds. This withholding applies if such beneficial owner of Series 2010B Bonds: (i) fails to furnish to the payor such beneficial owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2010B Bonds. Beneficial owners of the Series 2010B Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

***Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations.*** Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such a beneficial owner of the Series 2010B Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business; (iii) interest payments are not made to a person within a foreign country that the IRS

has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2010B Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Series 2010B Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Series 2010B Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

***Reporting of Interest Payments.*** Subject to certain exceptions, interest payments made to beneficial owners with respect to the Series 2010B Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2010B Bond for United States federal income tax purposes.

#### **CERTAIN LEGAL MATTERS**

The issuance of the 2010 Bonds is subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E. Bond Counsel will receive compensation from the City contingent upon the sale and delivery of the 2010 Bonds. Certain legal matters will be passed on for the City by the City Attorney, Dennis A. Barlow, Esq. and by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

#### **LITIGATION**

At the time of delivery and payment for the 2010 Bonds, an officer of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, questioning (i) the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2010 Bonds or the power and authority of the City to issue the 2010 Bonds, or (ii) the authority of the City to fix, charge and collect rates for the sale of power and energy by the City as provided in the Indenture.

#### **FINANCIAL STATEMENTS**

The audited financial statements of the City's Water and Electric Utility Enterprise Funds, as of June 30, 2009 and for the year then ended are included in APPENDIX B to this Official Statement. There has been no material adverse change in the finances of the City since June 30, 2009. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. The financial statements of the City's Water and Electric Utility Enterprise Funds have been audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor") as stated in their report appearing in APPENDIX B to this Official Statement. The Auditor has not updated its report or taken any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Mayer Hoffman McCann P.C. with respect to any event or transaction subsequent to their report dated November 13, 2009.

## **RATINGS**

It is expected that Standard & Poor's Corporation and Moody's Investors Service will assign the 2010 Bonds the credit ratings of "AA-" and "A1," respectively. Each such rating should be evaluated independently of any other rating. No application has been made to any other rating agency to obtain additional ratings on the 2010 Bonds. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same.

The above described ratings are not recommendations to buy, sell or hold the 2010 Bonds, and such ratings may be subject to revision or withdrawal at any time by one or both of the rating agencies. The City and the Underwriters undertake no responsibility either to bring to the attention of the owners of the 2010 Bonds the downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. Any downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the 2010 Bonds.

## **UNDERWRITING**

The Series 2010A Bonds will be purchased for reoffering by the Underwriters set forth on the cover of this Official Statement, at an aggregate purchase price of \$39,874,554.81, representing the par amount of the Series 2010A Bonds of \$35,825,000, less an Underwriters' discount of \$144,819.44 and plus an original issue premium of \$4,194,374.25 and the Series 2010B Bonds will be purchased for reoffering by the Underwriters set forth on the cover of this Official Statement, at an aggregate purchase price of \$52,320,471.41, representing the par amount of the Series 2010B Bonds of \$52,665,000 less an Underwriters' discount of \$344,528.59. The Underwriters will be obligated to purchase all of the 2010 Bonds if any of the 2010 Bonds are purchased.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an underwriter of the 2010 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of 2010 Bonds.

The Underwriters may offer and sell the 2010 Bonds to certain dealers (including dealers depositing 2010 Bonds into investment trusts) and others at prices lower than the public offering price stated on the inside cover page of this Official Statement. The initial public offering price may be changed from time to time by the Underwriters.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The Arbitrage Group, Inc., a firm of independent arbitrage consultants, will verify the accuracy of (i) mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the Defeasance Securities deposited in the Escrow Funds, together with amounts held as cash therein, to provide for payment of the redemption prices (including accrued interest) of the Refunded Bonds on the respective date of redemption thereof and (ii) certain mathematical computations supporting the conclusion that the 2010A Bonds are not "arbitrage bonds" under the Code, which will be used in part by Bond Counsel in concluding that the interest on the Series 2010A Bonds is excluded from gross

income for federal income tax purposes under present laws, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of such independent arbitrage consultants will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

#### **FINANCIAL ADVISOR**

The City has retained Public Financial Management, Inc., Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2010 Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the 2010 Bonds.

#### **CONTINUING DISCLOSURE**

The City has covenanted in a Continuing Disclosure Agreement, dated the date of delivery of the 2010 Bonds (the "Continuing Disclosure Agreement"), for the benefit of the holders and beneficial owners of the 2010 Bonds to provide certain financial information and operating data relating to the Electric System (the "Annual Report") by no later than 180 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2009-10 fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and the notice of material events is summarized in "APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). The City has not failed in the last five years to comply in all material respects with any previous undertaking with regard to said Rule to provide annual reports or notices of material events.



## APPENDIX A

### THE CITY OF BURBANK ECONOMIC AND FINANCIAL INFORMATION

The following information relating to the City is provided for informational purposes only. The 2010 Bonds (as defined in the front part of this Official Statement) are payable solely as described in this Official Statement and are not payable or secured by a pledge of the faith and credit or the taxing power of the City. Certain information in this Appendix A does not reflect the impact of the recent recession and the accompanying impact on employment, new building permits, sales tax revenue and other matters.

#### **General**

The City of Burbank, California (the “City” or “Burbank”) is located in the greater metropolitan Los Angeles area, approximately 12 miles northeast of the Los Angeles Civic Center complex. The economy represents a diverse blend of industrial, commercial and residential development. Burbank is a mature community that experienced very little population growth in the later 1970’s, modest population growth in the early 1980’s, and slightly faster population growth in the late 1980’s and early 1990’s.

#### **Municipal Government**

The City was incorporated as a general law city in 1911, and adopted its city charter in 1927. Burbank is administered by a Council-Manager form of government. The five City Council members, one of whom serves as Mayor, are elected at-large for four-year terms. Elections are staggered at two-year intervals.

The City operates 22 parks, a golf course and 3 libraries.

As of June 30, 2009, the City had 1,712 employees with 1,248 full-time, 223 part-time, and 241 temporary employees. Six associations represent the City’s employees: the Burbank City Employees’ Association (“BCEA”); the Burbank Fire Fighters Association (“BFF”); the Burbank Police Officers’ Association (“BPOA”); the International Brotherhood of Electric Workers Local 18 (“IBEW”); the Burbank Fire Fighters-Chief Officer’s Unit (“BFF-COU”); and, the Burbank Management Association (“BMA”). In addition, there are approximately 92 non-represented management employees. All of the associations are subject to the Meyers-Milias-Brown Act, which requires each association to meet and confer with the City in an effort to develop a “memorandum of understanding” (“MOU”). Negotiations for each memorandum are conducted before the June 30th expiration of the applicable memorandum. The City is currently in negotiations with BCEA. The City settled contracts with BFF and BFF-COU in September 2009. The City has not yet been able to reach an agreement with BPOA.

#### **Population**

The following table summarizes estimates of population for the years indicated. The population has grown at a fairly steady rate and accounts for a 2.6% population increase over this ten year time period. To address future population increases, the City is attempting to develop more affordable housing.

**CITY OF BURBANK  
POPULATION**

<u>January 1</u>	<u>Population</u>
2000	100,316
2001	101,460
2002	102,751
2003	104,308
2004	105,148
2005	106,037
2006	106,549
2007	107,020
2008	107,412
2009	108,082

Source: California Department of Finance, except for 2000 (U.S. Census).

**Industry and Employment**

The following table lists Burbank's major employers as of June 30, 2009. Most of these entities are also among the City's largest taxpayers.

**CITY OF BURBANK  
MAJOR EMPLOYERS**

<u>Company Name</u>	<u>No. of Employees</u>	<u>Products/Services</u>
The Walt Disney Company	7,900	Entertainment
Warner Bros. Entertainment Inc.	7,400	Entertainment
Providence/St. Joseph Hospital	2,850	Medical
Bob Hope Airport	2,400	Aviation
Burbank Unified School District	1,800	Education
City of Burbank	1,712	Government
NBC/Universal	1,135	Entertainment
Yahoo!	1,100	Media
Foto-Kem Industries	600	Media Related
Crane Company	600	Aviation

Source: City of Burbank.

As reported by the Community Development Department/Planning Division, the distribution of employment in the greater Burbank labor market is as shown on the following table:

**CITY OF BURBANK  
DISTRIBUTION OF EMPLOYMENT  
(as of January 1, 2010)**

<u>Classification</u>	<u>Employment</u>	<u>Distribution</u>
Durable and non-durable goods manufacturing	6,277	10.2%
Wholesale and retail trade	17,899	29.2
Services	12,642	20.6
Other (entertainment, utilities, airport and miscellaneous)	24,469	39.9
Total	61,287	100.0%

Source: City of Burbank Community Development Department/Planning Division.

**Income**

The following table compares the median household effective buying income for the City, the County of Los Angeles, the State and the nation.

**MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME**

<u>Year</u>	<u>City of Burbank</u>	<u>County of Los Angeles</u>	<u>State of California</u>	<u>United States</u>
2004	\$43,848	\$39,414	\$43,915	\$39,324
2005	44,602	40,020	44,681	40,529
2006	-- <sup>(1)</sup>	41,683	46,275	44,255
2007	-- <sup>(1)</sup>	43,710	48,203	41,792
2008	48,527	43,710	48,203	41,792

<sup>(1)</sup> Data for this period unavailable.

Figures for 2009 unavailable.

Source: "Survey of Buying Power," Sales and Marketing Management for 2004, 2005 and 2008; Claritas Demographics for 2006 and 2007.

**Taxable Sales**

The table below shows the history of taxable sales for the City for the years indicated:

**CITY OF BURBANK  
TAXABLE SALES  
(\$ in thousands)**

<u>Type of Business</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Retail Stores					
Apparel	\$ 63,519	\$ 72,852	\$ 79,873	\$ 94,437	\$ 93,283
General Merchandise	373,664	388,219	406,175	406,252	380,043
Food	69,200	77,271	83,106	86,914	87,524
Eating & Drinking Places	243,396	261,257	288,061	320,014	308,334
Home Furnishing & Appliances	187,418	209,292	216,601	239,493	320,624
Bldg Materials & Farm Implements	192,413	213,566	198,237	198,611	160,445
Auto Dealers & Suppliers	128,443	115,121	110,034	144,869	123,686
Service Stations	142,258	146,831	163,383	195,816	228,104
Other Retail Stores	<u>304,370</u>	<u>320,889</u>	<u>398,909</u>	<u>392,737</u>	<u>369,034</u>
Retail Stores Total	1,704,681	1,805,298	1,944,379	2,079,143	2,071,076
All Other Outlets	<u>750,732</u>	<u>764,957</u>	<u>792,995</u>	<u>852,116</u>	<u>784,949</u>
Total All Outlets	<u>\$2,455,413</u>	<u>\$2,570,255</u>	<u>\$2,737,374</u>	<u>\$2,931,259</u>	<u>\$2,856,024</u>

Source: California State Board of Equalization.

**Construction Activity**

The number of building permits issued by the City for the years indicated is set forth below.

**CITY OF BURBANK  
BUILDING PERMITS**

<u>Year</u>	<u>Number of Permits</u>
2004	2,475
2005	2,670
2006	2,512
2007	1,979
2008	1,768
2009	1,448

Source: City of Burbank Building Division.

The total valuation of building permits issued in the City for calendar year 2008 was approximately \$163.6 million. This compares with approximately \$302.9 million for calendar year 2007. The following table provides a summary of building permit valuations authorized in the City during the past four years and data through September 2009.

**CITY OF BURBANK  
BUILDING PERMIT VALUATION  
Calendar Years 2005 – 2009**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Valuation					
Residential	\$122,189,877	\$130,569,043	\$ 76,133,059	\$ 60,472,724	\$30,677,236
Commercial/Industrial	<u>123,187,031</u>	<u>123,496,830</u>	<u>226,798,794</u>	<u>103,171,749</u>	<u>85,969,013</u>
TOTAL	\$245,376,908	\$254,065,873	\$302,931,853	\$163,644,473	\$116,646,244
New Dwelling Units					
Single Family	71	66	40	47	15
Multi-Family	<u>253</u>	<u>248</u>	<u>144</u>	<u>272</u>	<u>127</u>
TOTAL	324	314	184	319	142

Source: City of Burbank Building Division.

**Economic Condition and Outlook**

The City of Burbank has had some notable developments over the past year. On January 5, 2009, the newly renovated DeBell Golf Clubhouse was opened to the public. The Clubhouse offers 13,760 square feet of recreational area which includes an upper level bar and grill, patio dining, a community room with theater seating capacity, restroom facilities, lounge areas, a kitchen and administrative offices. The facility also maintains a welcoming pro shop, starter area and golf cart storage on the lower level.

The Clubhouse which has a craftsman style design also features an art piece sculpture of a golfer in bronze commissioned by local Burbank resident Shiela Cavalluzi. The DeBell Clubhouse is adjacent to the DeBell Golf Course and sits on a hillside location surrounded by Stough Nature Center and Wildwood Canyon. The DeBell Golf Course marked its 50th year anniversary in June 2009.

The Robert “Bud” Ovrom Park, located on South San Fernando Boulevard and Providencia Avenue, was completed in April 2009. The one acre recreation facility provides a 7,000 square foot building with a community room, kitchen, two separate children’s play areas, a lighted basketball court, picnic/barbeque areas, a reception area and public restrooms. The park is part of an ongoing revitalization project of South San Fernando Boulevard which is the main corridor to Downtown Burbank and is named after Robert R. “Bud” Ovrom who served as Burbank’s City Manager from 1985 to 2003.

Located just south of the Bob Hope/Burbank Airport and just east of the I-5, the 2300 Empire Center Office Project is a 364,000 sq. ft. 7-story Class “A”, Leed Certified office building. The development is located as part of a 105 acre master-planned retail, hotel, and office project known as Empire Center.

The Burbank Housing Corporation and the City of Burbank are developing a community garden to improve the quality of life in the Elmwood neighborhood, the City’s first focus neighborhood. The community garden will include hardscape, art, solar panels and a small water feature and is scheduled for completion in Winter 2010. This sustainable garden would provide recreational green space, help keep the air clean, use storm water Best Management Practices (BMP), and showcase water-wise gardening

The Olive Avenue Street Improvement Project is located along an approximate 3.2 mile corridor between Lake Street to the east and Lakeside Avenue to the west. The Olive Avenue Streetscape Project will be geared towards improving opportunities for residents, businesses, and visitors to use transit and

non-motorized means of transportation tying in with the City Council's commitment to sustainability. The project will be completed in 2010.

In the downtown area, construction of "The Collection" was completed in fiscal year 2008-09. This \$80 million multi-use development added 188 residential units, 40,000 square feet of retail and restaurant space, and 700 parking spaces to Downtown Burbank.

Affordable housing remains a key component of the City's development plan, and is an especially important area of focus during these tough economic times. The Burbank Housing Corporation recently announced the completion of the Peyton-Grismer revitalization development, a 70-unit multi-family affordable housing community located on Grismer Avenue and Elliot Drive. The Housing Corporation also recently commenced construction on two properties within the Verdugo Lake and Golden State neighborhoods that will add another 38 affordable housing units to the City's inventory.

### **Utilities**

The City of Burbank provides its own municipal electric, water and sewer utilities. Southern California Gas Company and Pacific Bell Telephone Company also serve Burbank.

### **Fiscal Operation**

The City uses the modified accrual basis of accounting for all funds except proprietary funds which use the accrual basis of accounting. The City's financial statements are prepared in conformity with generally accepted accounting principles. Copies of the City's financial statements are on file in the City's Financial Services Department.

The City adopts an annual budget and utilizes an "encumbrance system." Under this procedure, commitments such as purchase orders and contracts at year-end are recorded as restrictions of fund balance through a reserve account. Generally, City staff begins preparation of the budget in January of the prior fiscal year, and the City Council adopts the budget in June of the prior fiscal year after holding public hearings. The 2009-10 fiscal year budget was adopted on June 9, 2009.

### **General Obligations and Revenue Bond Indebtedness**

As of June 30, 2009 the City had outstanding \$18,070,000 of General Obligation Bonds, \$16,900,000 of Wastewater Treatment Revenue Bonds, \$70,560,000 of Burbank Water and Power Electric Revenue Bonds, and \$9,330,000 Waste Disposal Revenue Bonds. The Redevelopment Agency had \$214,257,000 of outstanding Tax Allocation Bonds.

The City's statement of direct and overlapping debt as of June 30, 2009 is presented in the following table.

**CITY OF BURBANK**  
**SCHEDULE OF DIRECT AND OVERLAPPING DEBT**  
**(as of June 30, 2009)**  
**(in Thousands)**  
**(Unaudited)**

	<b>Percentage Applicable <sup>(1)</sup></b>	<b>Outstanding Debt 08/09</b>	<b>Estimated Share of Overlapping Debt</b>
Los Angeles County	1.536%	137,096	\$ 2,106
Los Angeles Community College District	3.100%	2,408,701	74,670
Total Overlapping Debt		2,545,797	76,776
 City Direct Debt :			
Burbank Unified School District		78,430	
Community Facilities District		6,155	
Burbank Redevelopment Tax Allocation		214,257	
Pension obligation bonds		18,070	
Total City Direct Debt			316,912
Total Direct and Overlapping Debt			\$393,688

Source: City of Burbank.

**Employment**

Annual employment information is unavailable separately for the City. The City is part of the Los Angeles County. The civilian labor force for Los Angeles County decreased from an average of 4,972,000 in 2008 to 4,923,800 in 2009.

**LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT**  
**Yearly Average for Calendar Years 2005-2009**

<u>Year</u>	<u>Area</u>	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
2005	L.A. County	4,810,000	4,552,800	257,100	5.3%
	California	17,629,200	16,671,900	957,200	5.4
	United States	139,368,000	133,488,000	5,880,000	4.2
2006	L.A. County	4,844,500	4,613,200	231,300	4.8
	California	17,821,100	16,948,400	5,695,000	4.9
	United States	140,820,000	135,125,000	6,204,000	4.0
2007	L.A. County	4,912,600	4,662,700	249,900	5.1
	California	18,078,000	17,108,700	969,300	5.4
	United States	142,314,000	134,055,000	8,300,000	5.8
2008	L.A. County	4,972,000	4,598,300	373,800	7.5
	California	18,391,800	17,059,6000	1,332,300	7.2
	United States	142,500,000	133,952,000	8,600,000	6.0
2009 <sup>(1)</sup>	L.A. County	4,923,800	4,298,200	625,700	11.9
	California	17,583,571	16,379,214	1,204,386	12.3
	United States	146,297,000	137,526,000	8,771,000	10.0

Source: State of California, Employment Development Department.

<sup>(1)</sup> *California Labor Market Review*, January 2010.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF BURBANK WATER AND  
ELECTRIC UTILITY ENTERPRISE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

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The Honorable Mayor and City Council  
City of Burbank  
Burbank, California

### Independent Auditors' Report

We have audited the accompanying financial statements of the Water and Electric Utility Funds, each an enterprise fund of the City of Burbank, California as of and for the year ended June 30, 2009 as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the City of Burbank, California. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Water and Electric Utility Funds of the City of Burbank for the year ended June 30, 2008 and, in our report dated November 10, 2008, we expressed an unqualified opinion on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Electric Utility Funds of the City of Burbank, California, as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The introductory section and historical summary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and historical summary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McLean P.C.*

Irvine, California  
November 13, 2009

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Management's Discussion and Analysis • Year ended June 30, 2009

The management of the Water and Electric Utility Enterprise Funds ("Management") offers the following overview and analysis of the basic financial statements for the fiscal year ended June 30, 2009 ("the fiscal year"). Management encourages readers to utilize information in the Management Discussion and Analysis ("MD&A") in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the Water and Electric Utility Enterprise Funds' ("Water and Electric Utility Funds") basic financial statements. For comparative purposes, these financial statements include the activities of the Electric and Water Utility Funds for the two most recent fiscal years.

Management has elected to provide highlights to the basic financial statements as well as vital statistics and other relevant information concerning the Water and Electric Utility Funds. Included as part of the financial statements are three separate statements.

*The Statement of Net Assets* presents information on the Water and Electric Utility Funds' assets and liabilities, with the difference between the two reported as net assets.

*The Statement of Revenues, Expenses, and Changes in Fund Net Assets* presents information showing how the Water and Electric Utility Funds' net assets changed during the two most recent fiscal years. Financial results are recorded using the accrual basis of accounting. Under this method, all changes in net assets are reported as soon as the underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses reported in this statement for some items may affect cash flows in future fiscal periods (examples include billed but uncollected revenues and employee earned but unused vacation leave).

*The Statement of Cash Flows* reports cash receipts, cash payments, and net changes in cash from operations, non-capital financing, capital and related financing, and investing activities.

*The Notes* to the Basic Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

## ELECTRIC UTILITY FUND

During the year ended June 30, 2009, the significant financial highlights are as follows:

- Net assets increased by \$14,077 or 6.6% from the prior fiscal year due to favorable operating results.
- The Electric Utility Fund invested \$17,636 in capital assets funded from cash reserves. The Electric Utility's capital improvement programs support the goal of delivering reliable services at competitive and stable rates and these capital investments were reflected in the system-wide reliability statistics. The average customer experienced a service outage only once every 5.0 years compared to an industry average of 1.2 outages per year. Customers who had an outage were out of service for an average of only 59.5 minutes compared to an industry average of 80.0 minutes.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Management's Discussion and Analysis • Year ended June 30, 2009

## FINANCIAL ANALYSIS

<b>Schedule of Revenues, Expenses, and Changes in Fund Net Assets (\$ in thousands)</b>			
	<b>2009</b>	<b>2008</b>	<b>Incr. (Decr.)</b>
Retail sales (in MWh)	1,183,987	1,180,500	3,487
<b>Operating revenues:</b>			
Retail	\$ 158,039	155,514	2,525
Wholesale	120,716	220,177	(99,461)
Miscellaneous/Other revenues	8,834	6,476	2,358
<b>Total operating revenues</b>	<b>287,589</b>	<b>382,167</b>	<b>(94,578)</b>
<b>Operating expenses:</b>			
Power supply and fuel – retail	95,043	105,481	(10,438)
Purchased power and fuel – wholesale	116,544	212,823	(96,279)
Transmission expense	11,632	11,607	25
Distribution expense	10,495	8,619	1,876
Other operating expenses	16,852	15,511	1,341
Depreciation	12,651	12,220	431
<b>Total operating expenses</b>	<b>263,217</b>	<b>366,261</b>	<b>(103,044)</b>
<b>Operating income</b>	<b>24,372</b>	<b>15,906</b>	<b>8,466</b>
<b>Non-operating income (expenses):</b>			
Interest income	1,707	4,649	(2,942)
Other income (expenses), net	484	542	(58)
Interest income (expenses), net	(3,581)	(3,883)	302
<b>Total non-operating income (expenses)</b>	<b>(1,390)</b>	<b>1,308</b>	<b>(2,698)</b>
<b>Income before contributions and transfers</b>	<b>22,982</b>	<b>17,214</b>	<b>5,768</b>
<b>Contributions and transfers:</b>			
Capital contributions	1,233	1,537	(304)
Transfers in from the City	0	55	(55)
Transfers out to the City	(10,138)	(9,836)	(302)
<b>Change in net assets</b>	<b>14,077</b>	<b>8,970</b>	<b>5,107</b>
<b>Net assets, beginning of year</b>	<b>212,685</b>	<b>203,715</b>	<b>8,970</b>
<b>Net assets, end of year</b>	<b>\$ 226,762</b>	<b>212,685</b>	<b>14,077</b>

Retail (sales to residential, commercial, and large industrial customers) and wholesale revenues were the primary revenue sources for the Electric Utility. These revenues made up 96.9% of the Electric Utility's operating revenues. Retail revenues grew by \$2,525 or 1.6% as a result of load growth and a full twelve months of a rate increase that went into effect in January 2008.

Other revenues were higher by \$2,358 or 36.4% compared to the prior year. These higher revenues were the result of power invoice reconciliations from prior periods from the Southern California Public Power Authority ("SCPPA").

Interest income was lower by \$2,942 or 63.3% compared to the prior year due to lower interest rates and lower cash balances. The average interest rate for the fiscal year was 3.5% compared to 4.7% in the prior year.

Wholesale margins for the fiscal year were \$4,172. Wholesale purchases and sales were lower by 45.2% because of lower energy prices and the economic downturn. However, wholesale margins continued to contribute to the Electric Utility's financial performance by reducing the utility's overall power supply expenses.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

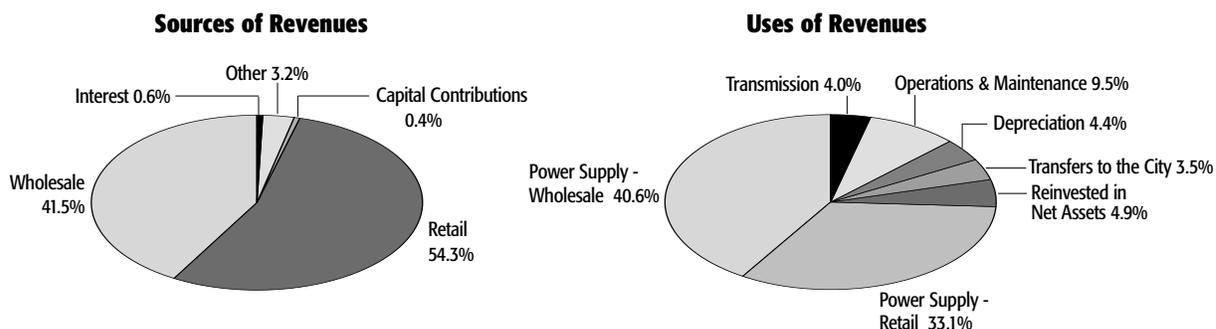
Management's Discussion and Analysis • Year ended June 30, 2009

Retail power supply expenses were \$10,438 or 9.9% lower than the prior year as a result of lower energy prices and effective power supply management. Market energy prices were approximately 35.0% lower compared to the prior year.

Distribution expenses were \$1,876 or 21.8% higher than the prior year. The increase was primarily due to higher wages and benefits from labor surveys and an adjustment in compensated absences. This year's compensated absences included an additional six months of expenses that were omitted from the prior year.

Other operating expenses were higher by \$1,341 or 8.6% compared to the prior year. The increase was primarily due to a higher cost allocation for City of Burbank ("City") provided services and an annual contribution to the International Brotherhood of Electrical Workers Retirees' Medical Trusts that started this fiscal year.

The Electric Utility transferred \$10,138 to the City's General Fund in the form of an in-lieu tax of 5.0% of the electric retail revenues and a street lighting transfer of 1.5% of the electric retail revenues. Retail customers also contributed \$10,376 or 7.0% of the electric retail revenues to the City's General Fund in the form of a Utility Users Tax. In addition, the Electric Utility set aside \$4,283 or 2.85% of the retail revenues for Public Benefit ("PB") programs.



The Electric Utility Fund's net assets at June 30, 2009 and June 30, 2008 are as follows:

<b>Schedule of Net Assets</b> (\$ in thousands)			
	<b>2009</b>	<b>2008</b>	<b>Incr. (Decr.)</b>
<b>Assets</b>			
Current assets	\$ 80,763	99,644	(18,881)
Non-current assets	12,820	13,884	(1,064)
Capital assets, net of retirement and accumulated depreciation	231,580	226,484	5,096
<b>Total assets</b>	<b>325,163</b>	<b>340,012</b>	<b>(14,849)</b>
<b>Liabilities</b>			
Current liabilities	32,650	53,240	(20,590)
Non-current liabilities	65,751	74,087	(8,336)
<b>Total liabilities</b>	<b>98,401</b>	<b>127,327</b>	<b>(28,926)</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	161,165	145,998	15,167
Restricted net assets	8,890	10,579	(1,689)
Unrestricted net assets	56,707	56,108	599
<b>Total net assets</b>	<b>\$ 226,762</b>	<b>212,685</b>	<b>14,077</b>

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Management's Discussion and Analysis • Year ended June 30, 2009

Changes in net assets may serve over time as a useful indicator of the Electric Utility Fund's financial strength. With a favorable operating result, net assets increased by \$14,077 for the year ended June 30, 2009 while total assets of \$325,163 exceeded liabilities by \$226,762 on June 30, 2009.

The current assets and current liabilities were lower than the prior year by \$18,881 and \$20,590 respectively, primarily due to lower wholesale related receivables and payables in June 2009.

A significant portion of the Electric Utility Fund's net assets, \$161,165 or 71.1% is invested in capital assets. The restricted net assets of \$8,890 or 3.9% are reserves with constraints imposed by financing requirements. The unrestricted net assets of \$56,707 or 25.0% are funds available for future investments in capital assets and maintenance activities. This amount was lower than the prior fiscal year because capital expenditures exceeded the change in net assets.

### CAPITAL ASSETS

As of June 30, 2009, the largest portion of the Electric Utility Fund's total assets, \$231,580 or 71.2%, was invested in capital assets. Additions to the Electric Utility Fund's capital assets included electric system and facility improvements, Aid-In-Construction ("AIC") projects, and other capital improvement projects for preventive maintenance and modernization.

Capital expenditures during the year were \$17,636. The Electric Utility has ongoing capital improvement programs to modernize its infrastructure, and information and control systems to ensure reliable and affordable services for existing and future customers. The Electric Utility is actively upgrading its power lines, moving toward the replacement of its remaining older substations, and increasing the number of paths that electric power can take in reaching customers. Many of the new lines are energized at 12kV (kilovolts) to accommodate the growing needs of our customers and to promote energy conservation by reducing system losses.

Some of the major capital expenditures during the year are as follows:

<i>(\$ in thousands)</i>	
Convert 4kV to 12kV	\$ 3,904
Completion of the New Burbank Substation (total cost of \$22.7 million)	3,140
Replacement Service Center/Warehouse	909
Upgrade/Construct 34.5kV line	896
Replace miscellaneous small equipment at major stations	809
Administration building remodeling	690
Provide service to larger buildings	456
Rebuild overhead electrical distribution lines	330
Upgrade underground electrical distribution lines	317
Underground the existing overhead lines	267
<b>Total</b>	<b>\$ 11,718</b>

The system-wide reliability statistics reflect the success of the Electric Utility's emphasis on a highly reliable electric distribution system. The average customer experienced a service outage only once every 5.0 years compared to an industry average of 1.2 outages per year. Customers who had an outage were out of service for an average of only 59.5 minutes compared to an industry average of 80.0 minutes.

### DEBT ADMINISTRATION

As of June 30, 2009, the Electric Utility Fund has \$70,560 in outstanding revenue bonds, of which \$9,125 will be due within a year. The Electric Utility paid off \$8,805 in outstanding bond debt during the fiscal year. These bond proceeds were issued for improvement projects for the electric system, construction of a generating unit, and to retrofit existing generators.

## **CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis • Year ended June 30, 2009

The Electric Utility Fund maintains an "AA-" rating from Standard & Poor's and an "A1" rating from Moody's Investors Service for its revenue bonds.

### **ENVIRONMENTAL AND ECONOMIC FACTORS**

The Electric Utility is committed to reduce the City's carbon footprint by acquiring additional renewable energy resources through collaborative efforts with SCPPA in accordance with the City's Renewable Portfolio Standard ("RPS") policy. The RPS requires that 33% of the Utility's energy supply come from eligible renewable resources by 2020. For the fiscal year, renewable energy resources made up 2.5% of the Electric Utility's total energy supply and are expected to grow to approximately 9.5% of the total energy supply by the end of the next fiscal year. During the fiscal year, the Electric Utility received energy from Pebble Springs Wind Development in Oregon, Tieton Hydropower in Washington, and Iberdrola Wind in Wyoming. The Milford Wind Development in Utah is being developed and is projected to supply an additional 2% of the City's energy requirements by late 2009. The Ameresco Project in California is also projected to be in service by late 2009 and will supply an additional 1% of the City's energy requirements. In addition, there are photovoltaic and geothermal projects under development or in the exploratory development stage to add to the City's Renewable Portfolio.

Natural gas prices fluctuated sharply during the fiscal year. The monthly Natural Gas Intelligent (NGI) price ranged from \$2.81 to \$12.27 during the fiscal year. The Electric Utility has been proactively hedging its retail power supply costs, including fuel for generation, against price volatility and will continue with this program to ensure rate stability and competitiveness.

### **WATER UTILITY FUND**

During the year ended June 30, 2009, the Water Utility Fund's significant financial highlights are as follows:

- Water sales were lower by 463,097 CCF (hundred cubic feet) or 4.9% compared to the last fiscal year primarily due to water conservation and cooler temperatures. Net assets increased by \$2,444 or 5.2% due to favorable operating results. This increase was used to reduce outstanding liabilities and to support additional capital funding.
- The Water Utility Fund invested an additional \$5,842 in capital assets during the fiscal year. This spending was funded by cash reserves. The Water Utility's goal is to deliver competitive rates and safe drinking water to customers by continuously modernizing the water production facilities, reducing system losses, and expanding the use of recycled water.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Management's Discussion and Analysis • Year ended June 30, 2009

## FINANCIAL ANALYSIS

<b>Schedule of Revenues, Expenses, and Changes in Fund Net Assets (\$ in thousands)</b>			
	<b>2009</b>	<b>2008</b>	<b>Incr. (Decr.)</b>
Potable water (in CCF)	8,979,830	9,446,484	(466,654)
<b>Operating revenues:</b>			
Potable water sales	\$ 19,407	21,079	(1,672)
Recycled water sales	1,446	1,424	22
Miscellaneous/Other revenues	519	721	(202)
<b>Total operating revenues</b>	<b>21,372</b>	<b>23,224</b>	<b>(1,852)</b>
<b>Operating expenses:</b>			
Water supply expenses	7,895	10,174	(2,279)
Operations, maintenance, and administration	6,388	5,637	751
Other operating expenses	2,764	2,147	617
Depreciation	2,526	2,405	121
<b>Total operating expenses</b>	<b>19,573</b>	<b>20,363</b>	<b>(790)</b>
<b>Operating income</b>	<b>1,799</b>	<b>2,861</b>	<b>(1,062)</b>
<b>Non-operating income (expenses):</b>			
Interest income	309	1,166	(857)
Other income (expenses), net	43	86	(43)
Interest income (expenses), net	(258)	(296)	38
<b>Total non-operating income (expenses)</b>	<b>94</b>	<b>956</b>	<b>(862)</b>
<b>Income before contributions and transfers</b>	<b>1,893</b>	<b>3,817</b>	<b>(1,924)</b>
<b>Contributions and transfers:</b>			
Capital contributions	1,516	1,098	418
Transfers in from the City	-	1	(1)
Transfers out to the City	(965)	(947)	(18)
<b>Change in net assets</b>	<b>2,444</b>	<b>3,969</b>	<b>(1,525)</b>
<b>Net assets, beginning of year</b>	<b>47,403</b>	<b>43,434</b>	<b>3,969</b>
<b>Net assets, end of year</b>	<b>\$ 49,847</b>	<b>47,403</b>	<b>2,444</b>

Potable water sales were the primary source of revenue for the Water Utility Fund. This revenue made up 90.8% of the total Water Utility's operating revenues. Potable water revenue was lower by \$1,672 or 7.9% compared to the prior fiscal year. This decrease was a result of water conservation coupled with a cooler than average summer.

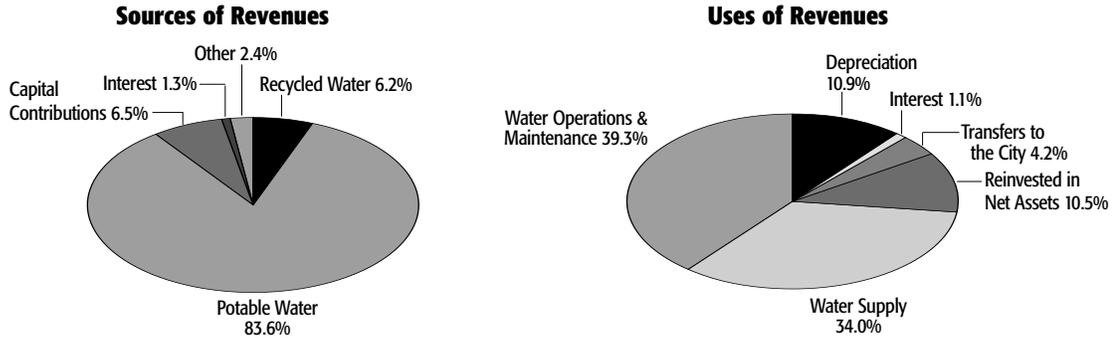
Water supply expenses were lower by \$2,279 or 22.4% compared to the prior fiscal year primarily due to an accounting change for groundwater inventory that started this fiscal year. Lower water sales and a 17.3% decrease in the volume of treated water purchased from the Metropolitan Water District ("MWD") also contributed to lower water supply expenses. These decreased expenses were partially offset by higher prices for the treated water; the average cost of purchased water per acre foot (AF) was up by 8.6% compared to the prior fiscal year.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Management's Discussion and Analysis • Year ended June 30, 2009

The Burbank Operable Unit ("BOU") ran at 60.7% of operating capacity for the fiscal year compared to the prior year's capacity of 54.2%. The BOU supplied approximately 42.2% of the City's total water supply compared to 35.1% in the prior fiscal year. Production efficiency was the result of capital improvements at the water production facilities and contributed to lower water supply expenses.

The Water Utility transferred \$965 or 5.0% of the water revenues to the City's General Fund in the form of an in-lieu tax.



The Water Utility Fund's net assets at June 30, 2009 and June 30, 2008 are as follows:

<b>Schedule of Net Assets</b> (\$ in thousands)			
	<b>2009</b>	<b>2008</b>	<b>Incr. (Decr.)</b>
<b>Assets</b>			
Current assets	\$ 12,472	14,488	(2,016)
Non-current assets	1,021	1,183	(162)
Capital assets, net of retirement and accumulated depreciation	47,204	43,902	3,302
<b>Total assets</b>	<b>60,697</b>	<b>59,573</b>	<b>1,124</b>
<b>Liabilities</b>			
Current liabilities	6,585	7,031	(446)
Non-current liabilities	4,265	5,139	(874)
<b>Total liabilities</b>	<b>10,850</b>	<b>12,170</b>	<b>(1,320)</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	42,626	37,920	4,706
Restricted net assets	470	693	(223)
Unrestricted net assets	6,751	8,790	(2,039)
<b>Total net assets</b>	<b>\$ 49,847</b>	<b>47,403</b>	<b>2,444</b>

Changes in net assets may serve over time as a useful indicator of the Water Utility Fund's financial strength. With a favorable operating result, total net assets increased by \$2,444 for the year ended June 30, 2009. Of the change in total net assets, \$1,124 or 46.0% was used to fund capital asset additions and improvements. The remaining portion of the change in total net assets of \$1,320 or 54.0% was used to reduce the Water Utility's outstanding liabilities.

Total assets increased to \$60,697 with assets exceeding liabilities by \$49,847 as of June 30, 2009. The increases in total assets are primarily attributed to capital asset additions which are discussed in the following section.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Management's Discussion and Analysis • Year ended June 30, 2009

## CAPITAL ASSETS

As of June 30, 2009, the majority of the Water Utility Fund's total assets, \$47,204 or 77.8%, was invested in capital assets. Capital assets included water system improvements, AIC projects, and other capital expenditures.

Capital expenditures during the year were \$5,792. Capital improvement programs are designed to upgrade and replace the water system infrastructure to ensure reliability and to provide safe and accurately measured services. These ongoing and planned investments reflect the Water Utility's goal of delivering competitive rates and safe drinking water with reliable production and distribution facilities.

The Water Utility is in its second year of building out the Recycled Water System and its infrastructure in accordance with the City's Recycled Water Master Plan. This program will shift outdoor irrigation use of potable water to recycled water for golf courses, many parks and businesses, and some schools. The City plans to continue its expansion of the recycled water usage program to help reduce the community's dependence on imported water and enable the community to withstand prolonged water shortage conditions.

Some of the major investments during the year are as follows:

<i>(\$ in thousands)</i>	
System/Service replacement	\$ 997
Meter replacements	951
Recycled water	858
Domestic water mains	763
Transmission water mains	729
Water tanks and reservoir repair	185
<b>Total</b>	<b><u>\$ 4,483</u></b>

## DEBT ADMINISTRATION

As of June 30, 2009, the Water Utility Fund has \$3,810 in outstanding revenue bonds, of which \$910 is due within a year. These bonds were issued to finance additions and improvements to the water system.

In addition to revenue bonds, the Water Utility Fund also has an outstanding State Water Resources Control Loan of \$1,007, of which \$184 is due within a year. This loan was issued for improvements to the Reclaimed Water Distribution System (now known as the Recycled Water System). The Water Utility repaid a total of \$1,054 toward outstanding bonds and loans during the fiscal year.

The Water Utility Fund maintains an "AA+" from Standard & Poor's and an "A1" rating from Moody's Investor Service.

## ENVIRONMENTAL AND ECONOMIC FACTORS

Burbank's water supply is highly dependent on the annual precipitation in Northern California. With four years of below normal precipitation in Northern California, coupled with judicial intervention on water from the Sacramento-San Joaquin River Delta, California is currently facing a water shortage crisis. Statewide water conservation is in effect under the State's Drought Declaration issued on June 4, 2008, and the State of Emergency Proclamation on Water Supply issued on February 27, 2009, to promote water usage reduction per capita by 20%. These actions are to prevent the need for water rationing and to promote efficient use of our precious water. The City has passed a mandatory conservation program that is consistent with the statewide public education programs to educate and enlighten water customers on the critical challenges confronting the State's water supply and delivery systems.

# **CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis • Year ended June 30, 2009

Effective September 1, 2009, MWD approved a second full-service treated water rate increase of 19.7% for the calendar year 2009. This increase is in addition to the 14.3% increase that went into effect in January 2009. These rate increases are the result of the water shortage, since the Water Supply Allotment from the State Water Project to MWD was decreased from 65% to 40% in 2009, compared to normal precipitation years.

Chromium VI contamination in groundwater is under review by the California Department of Health Services in order to draft a new Public Health Goal, since Chromium VI was concluded to be carcinogenic when ingested. The current Federal and State maximum contaminant limits are 100 parts per billion (ppb) and 50 ppb respectively. Currently, by Burbank City Council direction, Burbank's drinking water does not exceed 5 ppb. If the Water Utility is required to provide water with Chromium VI levels below 5 ppb, there will be an increased reliance on importing water from MWD or the Water Utility will need to make significant investments in the water system for the removal of Chromium VI from the groundwater. Such a change for the Water Utility would increase water costs and strain the City's water supply significantly.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Water and Electric Utility Funds. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to Bob Liu, Chief Financial Officer, Burbank Water and Power, 164 W. Magnolia Blvd., Burbank, CA 91502.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statement of Net Assets • June 30, 2009

*With comparative financial information for the year ended June 30, 2008 • \$ in thousands*

<b>Assets</b>	<b>Water</b>		<b>Electric</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Current assets:</b>				
Cash and cash equivalents (note 2):				
General operating	\$ 2,541	6,276	26,635	31,285
Capital and debt reduction	3,720	2,807	10,000	10,000
General plant	-	-	800	800
Fleet replacement	-	-	2,210	3,000
Water replenishment	-	1,000	-	-
WCAC	1,543	593	-	-
Distribution main	1,100	1,100	-	-
Total cash and cash equivalents	8,904	11,776	39,645	45,085
Accounts receivable, net (note 3)	2,149	1,838	13,629	32,189
Inventories (note 4)	1,337	741	5,744	4,221
Deposits and prepaid expenses (note 5)	6	6	21,427	17,631
Interest receivable	76	127	318	518
<b>Total current assets</b>	<b>12,472</b>	<b>14,488</b>	<b>80,763</b>	<b>99,644</b>
<b>Non-current assets:</b>				
Restricted non-pooled investments (note 2)	654	730	10,249	10,699
Advances receivable	326	410	2,167	2,725
Deferred bond issuance and acquisition costs	41	43	404	460
<b>Total non-current assets</b>	<b>1,021</b>	<b>1,183</b>	<b>12,820</b>	<b>13,884</b>
<b>Capital assets (note 6):</b>				
Land	309	309	2,734	2,734
Rights to purchase power	-	-	1,335	1,335
Utility plant and equipment	76,887	74,096	328,813	313,724
Construction in progress	7,890	4,853	52,174	49,473
Total utility plant and equipment	85,086	79,258	385,056	367,266
Less accumulated depreciation	(37,882)	(35,356)	(153,476)	(140,782)
<b>Total capital assets, net</b>	<b>47,204</b>	<b>43,902</b>	<b>231,580</b>	<b>226,484</b>
<b>Total assets</b>	<b>60,697</b>	<b>59,573</b>	<b>325,163</b>	<b>340,012</b>

See accompanying notes to basic financial statements.

*(Continued)*

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statement of Net Assets (continued) • June 30, 2009

*With comparative financial information for the year ended June 30, 2008 • \$ in thousands*

<b>Liabilities</b>	<b>Water</b>		<b>Electric</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Current liabilities:</b>				
Accounts payable and accrued expenses (note 7)	\$ 3,085	2,575	8,245	30,259
Current portion of loan payable (note 8)	184	179	-	-
Current portion of compensated absences (note 8)	73	36	324	214
Accrued payroll	1	1	12	11
Bond interest payable	13	16	93	119
Due to the City of Burbank	39	45	411	463
Customer deposits (note 9)	2,280	3,304	14,440	13,369
Current portion of revenue bonds payable, net (note 8)	910	875	9,125	8,805
<b>Total current liabilities</b>	<b>6,585</b>	<b>7,031</b>	<b>32,650</b>	<b>53,240</b>
<b>Non-current liabilities:</b>				
Revenue bonds payable, net (note 8)	2,832	3,738	61,197	70,287
Loan payable (note 8)	823	1,007	-	-
Compensated absences (note 8)	610	394	4,554	3,800
<b>Total non-current liabilities</b>	<b>4,265</b>	<b>5,139</b>	<b>65,751</b>	<b>74,087</b>
<b>Total liabilities</b>	<b>10,850</b>	<b>12,170</b>	<b>98,401</b>	<b>127,327</b>
<b>Net Assets</b>				
<b>Net assets:</b>				
Invested in capital assets, net of related debt	42,626	37,920	161,165	145,998
Restricted for debt service	470	693	8,890	10,579
Unrestricted	6,751	8,790	56,707	56,108
<b>Total net assets</b>	<b>\$ 49,847</b>	<b>47,403</b>	<b>226,762</b>	<b>212,685</b>

*See accompanying notes to basic financial statements.*

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets • Year ended June 30, 2009

*With comparative financial information for the year ended June 30, 2008 • \$ in thousands*

	Water		Electric	
	2009	2008	2009	2008
<b>Operating revenues:</b>				
Sale of power-retail	\$ -	-	158,039	155,514
Sale of power and fuel-wholesale (note 12)	-	-	120,716	220,177
Sale of water	20,853	22,503	-	-
Other revenues	519	721	8,834	6,476
<b>Total operating revenues</b>	<b>21,372</b>	<b>23,224</b>	<b>287,589</b>	<b>382,167</b>
<b>Operating expenses:</b>				
Power supply expenses-retail (note 11)	-	-	95,043	105,481
Purchased power and fuel expenses-wholesale (note 12)	-	-	116,544	212,823
Water supply expenses (note 1)	7,895	10,174	-	-
Water maintenance and operation expenses	6,388	5,637	-	-
Transmission expenses	-	-	11,632	11,607
Distribution expenses	-	-	10,495	8,619
Other operating expenses (note 1)	2,764	2,147	16,852	15,511
Depreciation	2,526	2,405	12,651	12,220
<b>Total operating expenses</b>	<b>19,573</b>	<b>20,363</b>	<b>263,217</b>	<b>366,261</b>
<b>Operating income</b>	<b>1,799</b>	<b>2,861</b>	<b>24,372</b>	<b>15,906</b>
<b>Non-operating income (expenses):</b>				
Interest income	309	1,166	1,707	4,649
Interest expense	(258)	(296)	(3,581)	(3,883)
Other income (expenses), net	43	86	484	542
<b>Total non-operating income (expenses)</b>	<b>94</b>	<b>956</b>	<b>(1,390)</b>	<b>1,308</b>
<b>Income before contributions and transfers</b>	<b>1,893</b>	<b>3,817</b>	<b>22,982</b>	<b>17,214</b>
Capital contributions	1,516	1,098	1,233	1,537
Transfers in from the City	-	1	-	55
Transfers out to the City:				
Payments in-lieu of taxes (note 10)	(965)	(947)	(10,138)	(9,836)
<b>Change in net assets</b>	<b>2,444</b>	<b>3,969</b>	<b>14,077</b>	<b>8,970</b>
<b>Net assets, July 1</b>	<b>47,403</b>	<b>43,434</b>	<b>212,685</b>	<b>203,715</b>
<b>Net assets, June 30</b>	<b>\$ 49,847</b>	<b>47,403</b>	<b>226,762</b>	<b>212,685</b>

See accompanying notes to basic financial statements.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statements of Cash Flows • Year ended June 30, 2009  
 With comparative financial information for the year ended June 30, 2008 • \$ in thousands

	Water		Electric	
	2009	2008	2009	2008
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 21,061	23,564	306,146	376,068
Cash paid to suppliers	(10,803)	(13,805)	(240,749)	(319,940)
Cash paid to employees	(7,107)	(5,815)	(35,263)	(30,498)
Cash received for miscellaneous purposes	14	-	109	-
<b>Net cash provided by (used in) operating activities</b>	<b>3,165</b>	<b>3,944</b>	<b>30,243</b>	<b>25,630</b>
<b>Cash flow from noncapital financing activities:</b>				
Advances receivable	84	-	558	-
Transfers from the City	-	1	-	55
Transfers to the City	(965)	(947)	(10,138)	(9,836)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(881)</b>	<b>(946)</b>	<b>(9,580)</b>	<b>(9,781)</b>
<b>Cash flows from capital and related activities:</b>				
Proceeds from sale of capital assets	29	-	375	452
Other income - net of sale proceeds of capital assets	-	86	-	90
Principal payments - bond	(875)	(840)	(8,805)	(8,505)
Interest payments	(256)	(299)	(3,516)	(3,853)
Capital contributions	1,516	1,098	1,233	1,537
Acquisition and construction of capital assets	(5,828)	(6,907)	(17,747)	(32,851)
Payments on loans	(179)	(175)	-	-
<b>Net cash used in capital and related activities</b>	<b>(5,593)</b>	<b>(7,037)</b>	<b>(28,460)</b>	<b>(43,130)</b>
<b>Cash flows from investing activities:</b>				
Interest received	361	1,194	1,907	4,818
Sale of restricted investment	76	7	450	67
<b>Net cash provided by investing activities</b>	<b>437</b>	<b>1,201</b>	<b>2,357</b>	<b>4,885</b>
Net increase (decrease) in cash and cash equivalents	(2,872)	(2,838)	(5,440)	(22,396)
<b>Cash and cash equivalents, beginning of year</b>	<b>11,776</b>	<b>14,614</b>	<b>45,085</b>	<b>67,481</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 8,904</b>	<b>11,776</b>	<b>39,645</b>	<b>45,085</b>

See accompanying notes to basic financial statements.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statements of Cash Flows • Year ended June 30, 2009  
 With comparative financial information for the year ended June 30, 2008 • \$ in thousands

	Water		Electric	
	2009	2008	2009	2008
<b>Cash flows from operating activities:</b>				
Operating income (loss)	\$ 1,799	2,861	24,372	15,906
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	2,526	2,405	12,651	12,220
Other non-operating revenue and expenses, net of sales proceeds of capital assets	14	91	109	124
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(311)	340	18,560	(6,096)
Increase (decrease) in due to/from the City of Burbank	-	-	(52)	69
(Increase) decrease in inventories	(596)	509	(1,523)	1,065
(Increase) decrease in deposits and prepaid expenses	-	10	(3,796)	(2,424)
(Increase) decrease in advances receivable	-	16	-	128
(Increase) decrease in rights to purchase power	-	-	-	43
Increase (decrease) in accounts payable and accrued expenses	504	(2,087)	(22,014)	4,187
Increase (decrease) in accrued payroll	-	(169)	1	(932)
Increase (decrease) in compensated absences	253	29	864	157
Increase (decrease) in customer deposits	(1,024)	(61)	1,071	1,183
Total adjustments	1,366	1,083	5,871	9,724
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 3,165</b>	<b>3,944</b>	<b>30,243</b>	<b>25,630</b>
<b>Noncash investing, capital and financing activities:</b>				
<b>Increase (decrease) in fair market value of investments</b>	<b>\$ (160)</b>	<b>118</b>	<b>(713)</b>	<b>609</b>

See accompanying notes to basic financial statements.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009  
*§ in thousands*

## NOTE 1: Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of the City as they pertain to the Water and Electric Utility Funds.

### (A) ACCOUNTING METHODS

The reporting model includes financial statements prepared using full accrual accounting for the Water and Electric Utility Funds' activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets, as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

The basic financial statements include the following:

**Statement of Net Assets** – The statement of net assets is designed to display the financial position of the reporting entity. The net assets of the Water and Electric Utility Funds are separated into three categories – 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted.

- Net assets invested in capital assets, net of related debt, consist of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets represent net assets whose use is restricted through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of entities with jurisdiction, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

**Statement of Revenues, Expenses and Changes in Fund Net Assets** – The statement of revenues, expenses and changes in fund net assets reports revenues by major source and distinguishes between operating and non-operating revenues and expenses.

**Statement of Cash Flows** – For the purposes of the statement of cash flows, the Water and Electric Utility Funds include all pooled cash and investments and restricted investments with an original maturity of three months or less as cash equivalents. The Water and Electric Utility Funds consider the pooled cash and investments to be a demand deposit account whereby monies may be withdrawn or deposited at any time without prior notice or penalty.

### (B) BASIS OF PRESENTATION

The Water and Electric Utility Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be recovered primarily through user charges or (b) where the City Council has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital expenditures, public policy, management control, accountability and other purposes.

### (C) REPORTING ENTITY

The Water and Electric Utility Funds' operations were established by the City in 1913. Burbank Water and Power ("BWP") manages the generation, purchase, transmission, distribution, and sale of electric energy and water. The activities of BWP are overseen by the City Council and the BWP Board.

The Water and Electric Utility Funds are used to account for the construction, operation and maintenance of the City owned water and electric utility. The City considers the Water and Electric Utility Funds to be Enterprise Funds (a proprietary fund type)

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009  
*\$ in thousands*

as defined under accounting principles generally accepted in the United States of America; accordingly, the accrual basis of accounting is followed by the Water and Electric Utility Funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Estimated earned but unbilled revenues which result from cycle utility billing practices are accrued. As an integral part of the City's overall operations, the Water and Electric Utility Funds' operations are also included in the City's Comprehensive Annual Financial Report.

In accordance with GASB Statement No. 20; for proprietary fund accounting, the City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

**(D) SELF-INSURANCE PROGRAM**

The Water and Electric Utility Funds are part of the City's self-insurance programs, which provide coverage for general liability and workers' compensation claims. These activities are accounted for in the City's Self-Insurance Internal Service Fund (a proprietary fund type). Fund revenues are primarily premium charges to other funds and are planned to match estimated payments, including both reported and incurred but not reported claims, operating expenses and reinsurance premiums. The fund expenses the estimated liability for claims in cases where such amounts are reasonably determinable and where the liability is likely. See note 14, Self-Insurance Program, for additional information on the City's self-insurance programs.

**(E) CAPITAL ASSETS**

Capital assets are recorded at cost or, in the case of gifts or contributed assets, at fair market value at the date of donation. The threshold for capitalizing assets is \$5,000 or greater, except for betterments which could be less. When items are sold or retired, related gains or losses are included in non-operating income (expenses). Maintenance and repairs are charged to expense as incurred. Improvements to plant and equipment are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

	<b>Estimated useful life</b>
Buildings and Improvements	20 to 40 years
Machinery and Equipment (except vehicles)	20 years
Production Plant	30 years
Boiler Plant	20 years
Transmission Structures	40 years
Transmission Equipment	20 to 40 years
Poles, Towers and Fixtures	20 to 40 years
Distribution Stations	30 to 40 years
Transformers	20 to 40 years
Electric Meters	20 years
Water Meters	15 to 20 years
Water Services	40 years
Vehicles	5 to 10 years
Office Equipment	3 to 10 years

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

### **(F) INVENTORIES**

Inventories consist of groundwater, stored fuel, natural gas, and materials and supplies held for future consumption and are priced at average cost.

### **(G) COMPENSATED ABSENCES**

The costs of employees' vested vacation and sick pay benefits are accrued as they are earned by the employees.

### **(H) ESTIMATES**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **(I) REVENUE RECOGNITION**

Revenues are recorded in the period in which they are earned. The Water and Electric Utility Funds accrue estimated unbilled revenue for energy and water sold but not billed at the end of the fiscal period. All residential and commercial accounts are billed monthly. Operating revenues consist of retail and wholesale sales of electricity, sales of potable and recycled water, and charges for electric and water related work performed for customers, such as service connection and relocation fees. The Water Utility Fund's revenues include a Water Cost Adjustment Charge ("WCAC"). WCAC revenues in excess of water supply expenses have been deferred (see note 7).

### **(J) OPERATING EXPENSES**

Purchased power and fuel expenses include all open market purchases of energy and fuel, firm contracts for the purchase of energy and fuel, energy production costs, and the costs of entitlements for energy and transmission as discussed in note 11.

Water supply expenses include purchased water, electricity used to pump water, and chemicals used in water treatment.

Other operating expenses include all costs associated with the Water and Electric Utility administration, customer service, telecom services, PB programs, and transfers to the City for cost allocation.

### **(K) DEBT ISSUANCE COSTS**

Debt issuance costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

### **(L) BOND REFUNDING COSTS**

Bond refunding costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method. Bond refunding costs are recorded as a reduction of the long-term debt obligation on the accompanying basic financial statements.

### **(M) PRIOR YEAR DATA**

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Water and Electric Utility Funds' prior year financial statements, from which this selected data was derived.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

## NOTE 2: Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

	Water	Electric	Total
Pooled cash and cash equivalents	\$ 8,904	39,629	48,533
Restricted non-pooled cash and cash equivalents	-	16	16
Restricted investments	654	10,249	10,903
<b>Total</b>	<b>\$ 9,558</b>	<b>49,894</b>	<b>59,452</b>
Cash on hand	\$ -	16	16
Investments	9,558	49,878	59,436
<b>Total</b>	<b>\$ 9,558</b>	<b>49,894</b>	<b>59,452</b>

The pooled cash and investments of Water and Electric Utility Funds are maintained on deposit with the City Treasurer. The amounts are invested in the pooled funds and specific investment securities for the purpose of increasing income through investment activities. Investment income is allocated to the Funds based upon a proportionate share of total pooled investment earnings. Further information concerning the City's investment pool can be found in the City's Comprehensive Annual Financial Report.

Restricted non-pooled cash and cash equivalents consist of minimum required balances primarily for checking accounts.

Cash and investments restricted for a specific purpose by either bond resolution, funding agency or an outside third party are classified as restricted assets.

### INVESTMENTS AUTHORIZED BY THE CALIFORNIA GOVERNMENT CODE AND THE CITY'S INVESTMENT POLICY

The table below identifies the **investment types** that are authorized for the City by the California Government Code ("Code") (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the Code (or the City's investment policy, where more restrictive) that address **interest rate risk**, **credit risk**, and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the Code or the City's investment policy.

Authorized Investment Type	Authorized by City Policy	Maximum Maturity	Max. Percentage of Portfolio	Max. Investment One Issuer
Agency-U.S. Federal Agency	Yes	5 years	70%	None
Burbank Investment Pool	Yes	N/A	None	None
Corporates-Medium Term Notes	Yes	5 years	30%	5%
LAIF-Local Agency Investment Fund	Yes	N/A	None	None
U.S. Treasury Obligations	Yes	5 years	100%	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	15%	2%
Timed Certificates of Deposit	Yes	5 years	40%	\$250
Negotiable Certificates of Deposit	Yes	5 years	20%	\$250
Money Market Mutual Funds	Yes	90 days	15%	None
Local Agency Bonds	No	N/A	N/A	N/A
Repurchase Agreements	No	N/A	N/A	N/A
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Mutual Funds	No	N/A	N/A	N/A
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	No	N/A	N/A	N/A

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

### INVESTMENTS AUTHORIZED BY DEBT AGREEMENTS

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address **interest rate risk**, **credit risk**, and **concentration of credit risk**.

Authorized Investment Type	Maximum Maturity	Max. Percentage of Portfolio	Max. Investment One Issuer
Investment Agreements	N/A	None	None
LAIF-Local Agency Investment Fund	N/A	None	None
Money Market	N/A	None	None
Pledge Bonds	N/A	None	None
U.S. Treasury Obligations	N/A	None	None

### DISCLOSURES RELATING TO INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. One way that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Maturity (in Months)				Total
	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months	
Burbank Investment Pool	\$ 48,533	-	-	-	48,533
Held by Bond Trustee:					
Investment Agreements	-	2,104	-	6,323	8,427
Money Market	2,284	-	-	-	2,284
U.S. Treasury Obligations	192	-	-	-	192
<b>Total</b>	<b>\$ 51,009</b>	<b>2,104</b>	<b>-</b>	<b>6,323</b>	<b>59,436</b>

Note: The table above excludes cash on hand of \$16 (see pg. 31).

### DISCLOSURES RELATING TO CREDIT RISK

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following table shows the minimum rating required by (where applicable) the Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type. The column marked "Exempt from Disclosure" identifies those investment types for which GASB 40 does not require disclosure as to credit risk.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

		Minimum Legal Rating	Exempt from Disclosure
Burbank Investment Pool	\$ 48,533	N/A	N/A
Held by Bond Trustee:			
Investment Agreements	8,427	A	N/A
Money Market	2,284	Aaa	N/A
U.S. Treasury Obligations	192	Aaa	192
<b>Total</b>	<b>\$ 59,436</b>		

	Rating as of Year-End					Total
	Aaa	Aa	A	Baa	Not Rated	
Burbank Investment Pool	\$ -	-	-	-	48,533	48,533
Held by Bond Trustee:						
Investment Agreements	-	8,427	-	-	-	8,427
Money Market	2,284	-	-	-	-	2,284
U.S. Treasury Obligations	-	-	-	-	-	-
<b>Total</b>	<b>\$ 2,284</b>	<b>8,427</b>	<b>-</b>	<b>-</b>	<b>48,533</b>	<b>59,244</b>

### CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Recent economic news reports problems with a number of financial institutions. Some institutions have reported financial difficulties as an indirect result of delinquencies associated with home mortgages. There is also news of Federal financial assistance for financial companies. The full ramifications of this are not determinable at this time and it is not possible to determine with certainty all of the institutions that might be impacted by current market conditions.

### INVESTMENT IN STATE INVESTMENT POOL

The City is a voluntary participant in the Local Agency Investment Fund ("LAIF") that is regulated by the Code, Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

### EQUITY IN THE CASH AND INVESTMENT POOL OF THE CITY OF BURBANK

BWP has no separate bank accounts or investments other than investments held by bond trustee and BWP's equity in the cash and investment pool managed by the City. BWP is a voluntary participant in that pool. This pool is governed by and under the regulatory

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

oversight of the Investment Policy adopted by the City Council. BWP has not adopted a formal investment policy separate from that of the City; BWP is however permitted to invest in LAIF and U.S. Federal Agency notes. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon BWP's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. The pool is treated as a demand deposit, meaning that funds can be withdrawn with no advance notice.

### NOTE 3: Accounts Receivable

	Water		Electric	
	2009	2008	2009	2008
Accounts receivable	\$ 2,176	1,906	13,818	32,344
Allowance for uncollectible accounts	(27)	(68)	(189)	(155)
<b>Accounts receivable-net</b>	<b>\$ 2,149</b>	<b>1,838</b>	<b>13,629</b>	<b>32,189</b>

The Utility fully reserves accounts receivable over 90 days old in allowance for uncollectible accounts receivable.

The Electric Utility Fund's receivables were lower compared to last fiscal year due to decreased energy trading activities in the wholesale market.

### NOTE 4: Inventories

The Water and Electric Utility Funds' inventories as of June 30, 2009 and June 30, 2008 are:

	Water		Electric	
	2009	2008	2009	2008
Materials and supplies inventory	\$ 581	741	5,744	3,961
Natural gas inventory	-	-	-	260
Groundwater purchases inventory	756	-	-	-
<b>Total</b>	<b>\$ 1,337</b>	<b>741</b>	<b>5,744</b>	<b>4,221</b>

The Electric Utility Fund exhausted its natural gas inventory in fiscal year 2008-2009.

The Water Utility Fund purchased groundwater inventory in fiscal year 2008-2009. At June 30, 2009 the Water Utility's average cost of groundwater inventory was \$111.33 per AF.

### NOTE 5: Deposits and Prepaid Expenses

The Electric Utility Fund shows a total of \$21,427 in deposits and prepaid expenses. The composition of these deposits and prepaid expenses include a \$2,865 deposit with SCPPA as a fuel reserve for the Magnolia Power Project ("MPP"), a \$6,770 deposit with SCPPA for future use in multiple projects, a \$7,895 deposit with Tieton Hydropower, L.L.C. for future energy deliveries, a \$1,725 prepayment to Powerex for future energy deliveries, and a \$1,188 prepayment to SCPPA Natural Gas Reserve for future gas deliveries. In addition, in June 2000, the City prepaid a lease payment of \$1,500 for the use of land to locate a new switching station. The twenty-year lease began in January 2002. For the fiscal year ended June 30, 2009, the Electric Fund amortized \$75 on this prepaid lease, leaving a balance of \$938.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

### NOTE 6: Capital Assets

Capital assets include the following at June 30, 2009 and 2008:

#### North-South DC Intertie

WATER	Balance as of June 30, 2007	Additions	Deletions	Balance as of June 30, 2008	Additions	Deletions	Balance as of June 30, 2009
Capital assets not being depreciated:							
Land	\$ 309	-	-	309	-	-	309
Construction in progress	3,427	6,346	(4,920)	4,853	5,752	(2,715)	7,890
Total capital assets not being depreciated	3,736	6,346	(4,920)	5,162	5,752	(2,715)	8,199
Capital assets being depreciated:							
Buildings and improvements	63,537	4,855	-	68,392	2,654	-	71,046
Accumulated depreciation	(29,267)	(2,091)	-	(31,358)	(2,228)	-	(33,586)
Machinery and equipment	5,163	541	-	5,704	137	-	5,841
Accumulated depreciation	(3,683)	(315)	-	(3,998)	(297)	(1)	(4,296)
Total capital assets being depreciated, net	35,750	2,990	-	38,740	266	(1)	39,005
<b>Total net capital assets</b>	<b>\$ 39,486</b>	<b>9,336</b>	<b>(4,920)</b>	<b>43,902</b>	<b>6,018</b>	<b>(2,716)</b>	<b>47,204</b>
ELECTRIC	Balance as of June 30, 2007	Additions	Deletions	Balance as of June 30, 2008	Additions	Deletions	Balance as of June 30, 2009
Capital assets not being depreciated:							
Land	\$ 2,734	-	-	2,734	-	-	2,734
Construction in progress	35,082	30,913	(16,522)	49,473	15,741	(13,040)	52,174
Total capital assets not being depreciated	37,816	30,913	(16,522)	52,207	15,741	(13,040)	54,908
Capital assets being depreciated:							
Land improvements	2,282	-	-	2,282	-	-	2,282
Accumulated depreciation	(227)	(91)	-	(318)	(91)	-	(409)
Rights to purchase power	1,335	-	-	1,335	-	-	1,335
Accumulated depreciation	(326)	(43)	-	(369)	(43)	-	(412)
Buildings and improvements	268,644	17,802	-	286,446	14,118	-	300,564
Accumulated depreciation	(112,454)	(10,646)	-	(123,100)	(11,055)	-	(134,155)
Machinery and equipment	24,362	634	-	24,996	980	(9)	25,967
Accumulated depreciation	(15,446)	(1,549)	-	(16,995)	(1,506)	1	(18,500)
Total capital assets being depreciated, net	168,170	6,107	-	174,277	2,403	(8)	176,672
<b>Total net capital assets</b>	<b>\$ 205,986</b>	<b>37,020</b>	<b>(16,522)</b>	<b>226,484</b>	<b>18,144</b>	<b>(13,048)</b>	<b>231,580</b>

The City is a participant in an agreement with the City of Los Angeles, Southern California Edison, the City of Glendale and the City of Pasadena for an unrestricted 3.846% interest in the North-South DC Intertie. As of June 30, 2009, the Electric Utility Fund has recorded its share of the Intertie of approximately \$14,634 within its plant and equipment assets, less accumulated depreciation approximating \$9,812, for a net asset value of \$4,822. Such asset is being depreciated using the straight-line method over a useful life of 40 years. The City's voting right in the project is directly in proportion to its percentage interest.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009  
\$ in thousands

## NOTE 7: Accounts Payable and Accrued Expenses

The Water Utility Fund's revenues include a Water Cost Adjustment Charge. WCAC revenues in excess of water supply expenses have been deferred to a water cost adjustment deferred revenue account. Water supply expenses (WCAC expenses) include purchased water, electricity to pump water, and chemicals used to treat water. The deferred WCAC balances were \$1,543 and \$593 at June 30, 2009 and 2008, respectively.

The Electric Utility Fund's accounts payable and accrued expenses were lower compared to last fiscal year due to decreased energy trading activities in the wholesale market.

	Water		Electric	
	2009	2008	2009	2008
Accounts payable & accrued expenses	\$ 1,542	1,982	8,245	30,259
WCAC	1,543	593	-	-
<b>Total</b>	<b>\$ 3,085</b>	<b>2,575</b>	<b>8,245</b>	<b>30,259</b>

## NOTE 8: Loan and Revenue Bonds Payable

### (A) LOAN PAYABLE

	Water	
	2009	2008
This State Water Resources Control Loan was issued for the purpose of construction improvement to the Reclaimed Water Distribution System (now known as the Recycled Water System). Funds are disbursed on either a reimbursement basis, or at such time, as they are due and payable by the City. The interest rate is 2.7%, with the principal to be repaid no later than April 2014, 20 years from the loan date.	\$ 1,007	1,186
Less current portion	(184)	(179)
<b>Long-term intergovernmental loan payment</b>	<b>\$ 823</b>	<b>1,007</b>

A schedule of aggregate maturities, including interest, on the intergovernmental loan payable subsequent to June 30, 2009 is as follows:

	Water		
	Principal	Interest	Total
2010	184	27	211
2011	189	22	211
2012	194	17	211
2013	199	12	211
2014	241	7	248
	<b>\$ 1,007</b>	<b>85</b>	<b>1,092</b>

### (B) REVENUE BONDS PAYABLE

All the revenue bonds issued by the Water and Electric Utility Funds are secured by a pledge of a lien upon the net revenues of the Electric or Water Utility Funds, depending on the purpose of the debt, as well as all amounts on deposit in the funds and accounts established under the indenture, including the reserve account. Net reserves include all revenues received by the Water and Electric Utility Funds, less amounts required for payment of operating expenses.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

	Water		Electric	
	2009	2008	2009	2008
<b>1998 Series A Bonds:</b>				
\$45,160 Public Service Department Electric Revenue Bonds, 1998 Series A, and \$10,585 Public Service Department Water Revenue Bonds, 1998 Series A were issued to partially advance refund the 1992 Series A Public Service Department Water and Electric Revenue Bonds and to provide funds for additions and improvements, payable in installments ranging from \$750 to \$3,700. Interest rates range from 2.90% to 4.75%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2023.	\$ 3,810	4,685	38,385	40,175
Less:				
Current portion	(910)	(875)	(1,865)	(1,790)
Original issue discount/premium	(68)	(72)	(361)	(380)
<b>Long-term 1998 Series A Bonds</b>	<b>\$ 2,832</b>	<b>3,738</b>	<b>36,159</b>	<b>38,005</b>
<b>2001 Series A Bonds:</b>				
\$54,745 Burbank Water and Power Electric Revenue Bonds, Series A of 2001, were issued to fund the acquisition and installation of a 47 MW gas-fired turbine, other electric improvements and refund outstanding senior lien revenue bonds. Payments are in installments ranging from \$5,360 to \$6,770. Interest rates range from 2.25% to 4.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2011.	\$ -	-	12,435	18,330
Less:				
Current portion	-	-	(6,105)	(5,895)
Original issue discount/premium	-	-	(59)	(88)
<b>Long-term 2001 Series A Bonds</b>	<b>\$ -</b>	<b>-</b>	<b>6,271</b>	<b>12,347</b>
<b>2002 Series A Bonds:</b>				
\$25,000 Burbank Water and Power Electric Revenue Bonds, Series A of 2002, were issued for retrofitting Olive 1 and Olive 2 steam generators to meet new air quality emission limits, other electric improvements and refund certain electric revenue bonds. Payments are in installments ranging from \$990 to \$2,000. Interest rates range from 3.000% to 5.375%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2022.	\$ -	-	19,740	20,860
Less:				
Current portion	-	-	(1,155)	(1,120)
Original issue discount/premium	-	-	182	195
<b>Long-term 2002 Series A Bonds</b>	<b>-</b>	<b>-</b>	<b>18,767</b>	<b>19,935</b>
<b>Total long-term revenue bonds payable</b>	<b>\$ 2,832</b>	<b>3,738</b>	<b>61,197</b>	<b>70,287</b>

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009  
\$ in thousands

A schedule of aggregate maturities on bonds payable subsequent to June 30, 2009 is as follows:

	Water		Electric		Total
	Principal	Interest	Principal	Interest	
2010	\$ 910	192	9,125	3,287	13,514
2011	955	145	9,475	2,939	13,514
2012	1,005	96	3,295	2,538	6,934
2013	65	45	3,585	2,382	6,077
2014	70	42	3,760	2,211	6,083
2015 – 2019	405	154	21,790	8,082	30,431
2020 – 2023	400	48	19,530	2,266	22,244
<b>Total</b>	<b>\$ 3,810</b>	<b>722</b>	<b>70,560</b>	<b>23,705</b>	<b>98,797</b>

The following is a summary of changes in the Water Utility Fund's long-term liabilities as of June 30, 2009:

<b>June 30, 2009</b>	<b>July 1, 2008</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2009</b>	<b>Due within One Year</b>
Intergovernmental Loan Payable	\$ 1,186	-	(179)	1,007	184
Revenue Bond Payable:					
1998 Series A Bonds	4,685	-	(875)	3,810	910
Compensated Absences	430	253	-	683	73
	<u>\$ 6,301</u>	<u>253</u>	<u>(1,054)</u>	<u>5,500</u>	<u>1,167</u>
Less current portion	(1,090)			(1,167)	
Less unamortized bond premium (discounts)	(72)			(68)	
<b>Total</b>	<b>\$ 5,139</b>			<b>4,265</b>	

<b>June 30, 2008</b>	<b>July 1, 2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2008</b>	<b>Due within One Year</b>
Intergovernmental Loan Payable	\$ 1,361	-	(175)	1,186	179
Revenue Bond Payable:					
1998 Series A Bonds	5,525	-	(840)	4,685	875
Compensated Absences	401	66	(37)	430	36
	<u>\$ 7,287</u>	<u>66</u>	<u>(1,052)</u>	<u>6,301</u>	<u>1,090</u>
Less current portion	(1,051)			(1,090)	
Less unamortized bond premium (discounts)	(75)			(72)	
<b>Total</b>	<b>\$ 6,161</b>			<b>5,139</b>	

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

The following is a summary of changes in the Electric Utility Fund's long-term liabilities as of June 30, 2009:

<b>June 30, 2009</b>	<b>July 1, 2008</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2009</b>	<b>Due within One Year</b>
Revenue Bond Payable:					
1998 Series A Bonds	\$ 40,175	-	(1,790)	38,385	1,865
2001 Series A Bonds	18,330	-	(5,895)	12,435	6,105
2002 Series A Bonds	20,860	-	(1,120)	19,740	1,155
Compensated Absences	4,014	1,078	(214)	4,878	324
	<u>\$ 83,379</u>	<u>1,078</u>	<u>(9,019)</u>	<u>75,438</u>	<u>9,449</u>
Less current portion	(9,019)			(9,449)	
Less unamortized bond premium (discounts)	(273)			(238)	
<b>Total</b>	<b><u>\$ 74,087</u></b>			<b><u>65,751</u></b>	
<b>June 30, 2008</b>	<b>July 1, 2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2008</b>	<b>Due within One Year</b>
Revenue Bond Payable:					
1998 Series A Bonds	\$ 41,900	-	(1,725)	40,175	1,790
2001 Series A Bonds	24,030	-	(5,700)	18,330	5,895
2002 Series A Bonds	21,940	-	(1,080)	20,860	1,120
Compensated Absences	3,856	389	(231)	4,014	214
	<u>\$ 91,726</u>	<u>389</u>	<u>(8,736)</u>	<u>83,379</u>	<u>9,019</u>
Less current portion	(8,736)			(9,019)	
Less unamortized bond premium (discounts)	(307)			(273)	
<b>Total</b>	<b><u>\$ 82,683</u></b>			<b><u>74,087</u></b>	

### NOTE 9: Customer Deposits

AB 1890 requires the Electric Utility to spend 2.85% of its electric revenues for PB purposes. The entire unspent portion of the PB obligation for the Electric Utility has been recorded in the Electric Utility Fund's liabilities. The amount of the PB obligation is part of customer deposits, but reported as the PB liability. The unspent portion of the PB obligation is included in customer deposits and as of June 30, 2009 and June 30, 2008 is \$9,752 and \$9,528, respectively.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009  
\$ in thousands

### NOTE 10: Related Party Transactions

The City assesses a 5.0% in-lieu of taxes on Water and Electric Utility Fund revenues. In addition, an assessment of 1.5% is made on electric revenues to maintain and operate the City's street lighting system. These charges are reflected in the accompanying statements of revenues, expenses and changes in fund net assets for the years ended June 30, 2009 and 2008 as follows:

	Water		Electric	
	2009	2008	2009	2008
In-lieu of taxes	\$ 965	947	7,899	7,669
Street lighting	-	-	2,239	2,167
<b>Total payment in-lieu of taxes</b>	<b>\$ 965</b>	<b>947</b>	<b>10,138</b>	<b>9,836</b>

The City also allocates certain administrative and overhead costs to the Water and Electric Utility Funds in the other operating expenses category. These costs for the years ended June 30, 2009 and 2008 were as follows:

	Water		Electric	
	2009	2008	2009	2008
Administrative and overhead costs	\$ 688	726	3,028	2,911
<b>Total</b>	<b>\$ 688</b>	<b>726</b>	<b>3,028</b>	<b>2,911</b>

In addition, the City receives a 7% Utility Users Tax on electric revenues that is not reflected in the Electric Utility Fund's financial statements. This tax for the year ended June 30, 2009 and 2008 was as follows:

	Electric	
	2009	2008
Utility Users Taxes	\$ 10,376	10,330
<b>Total</b>	<b>\$ 10,376</b>	<b>10,330</b>

### NOTE 11: Power Supply and Fuel Expenses - Retail

#### A) RETAIL ENERGY SUPPLY

BWP receives electricity through firm contracts, local generation and market purchases. The majority of electricity is delivered through firm contracts, which includes "take or pay" and term purchases. Local generation and market purchases supplement firm contracts to meet Burbank's retail load requirements.

#### B) "TAKE OR PAY" CONTRACTS

The City, through its Electric Utility Fund, has entered into "take or pay" contracts to meet the electric needs of its customers. The City is obligated to pay its share of the indebtedness regardless of the ability of the contracting agency to provide electricity or the City's need for the electricity. However, in the opinion of management, the City does not have a financial responsibility for purposes of GASB Statement No. 14 because SCPPA and the Intermountain Power Agency ("IPA") do not depend on revenue from the City to continue in existence. Obligation for this indebtedness is through participation in two joint power agencies, SCPPA and IPA.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

These contracts constitute an obligation of the Electric Utility Fund to make debt service payments from its operating revenues. The Electric Utility Fund's share of debt service is not recorded as an obligation on the accompanying basic financial statements; however, it is included as a component of its power supply expenses.

### **(a) SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY ("SCPPA" OR "AUTHORITY")**

SCPPA membership consists of eleven Southern California cities and one public irrigation district of the State of California, which serves the electric power needs of its Southern California electricity customers. SCPPA, a public entity organized under the laws of the State of California, was formed by a joint powers agreement dated November 1, 1980, pursuant to the Joint Exercise of Powers Act of the State of California. SCPPA was created for the purpose of planning, financing, developing, acquiring, constructing, operating and maintaining projects for the generation and transmission of electric energy for sale to its participants. The joint power agreement has a term of 50 years.

#### **Hoover Upgrading Project (HU)**

On March 1, 1986, the Authority and six participants entered into an agreement pursuant to which each participant assigned its entitlement to capacity and associated firm energy to the Authority in return for the Authority's agreement to make advance payments to the United States Bureau of Reclamation (USBR) on behalf of such participants. The Authority has an 18.68% interest in the contingent capacity of the Hoover Upgrading Project. All 17 "uprated" generators of the HU have commenced commercial operations. The City has a 16.00% (15 megawatt) ownership interest in this project.

#### **Southern Transmission System Project (STS)**

Pursuant to an agreement dated as of May 1, 1983 with the IPA, the Authority made payments in aid of construction to IPA to defray all costs of acquisition and construction of the Southern Transmission System Project ("STS"), which provides for the transmission of energy from the Intermountain Generating Station in Utah to Southern California. STS commenced commercial operations in July 1986. The Department of Water and Power of the City of Los Angeles ("LADWP"), a member of the Authority, serves as project manager and operating agent of the Intermountain Power Project ("IPP"). The STS consists of a 488-mile transmission line and the associated converter station on each end. The 500kV DC bi-pole transmission lines are currently rated at 1,920 megawatts (MW). The City's ownership share of this project is 4.5%.

#### **Mead-Phoenix Project (MP)**

The Authority entered into an agreement dated as of December 17, 1991 to acquire an interest in the Mead-Phoenix Project, a transmission line extending between the West Wing substation in Arizona and the Marketplace substation in Nevada. The agreement provides the Authority with an 18.31% interest in the West Wing-Mead project, a 17.76% interest in the Mead substation project component and a 22.41% interest in the Mead-Marketplace component. The project is a 256 mile, 500 kV AC transmission line with a rating of 1,300 MW. The City's ownership share of Mead-Phoenix is 15.40%.

#### **Mead-Adelanto Project (MA)**

The Authority also entered into an agreement dated as of December 17, 1991 to acquire a 67.92% interest in the Mead-Adelanto Project, a transmission line extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada. Funding for these projects was provided by a transfer from the multiple projects fund, and commercial operations commenced in April 1996. LADWP serves as the operations manager of Mead-Adelanto. The project is a 202 mile, 500 kV AC transmission line with a rating of 1,200 MW. The City's ownership share of Mead-Adelanto is 11.50%.

#### **Palo Verde Project (PV)**

Pursuant to an assignment agreement dated as of August 14, 1981 with the Salt River Project, the Authority purchased a 5.91% interest in the Palo Verde Nuclear Generating Station, a 3,810 MW nuclear-fueled generating station near Phoenix, Arizona and a 6.55% share of the right to use certain portions of the Arizona nuclear power project valley transmission system (collectively,

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

the Palo Verde Project). Units 1, 2 and 3 of the Palo Verde Project began commercial operations in January 1986, September 1986 and January 1988, respectively. The City's ownership share of this project is 4.40% (9.70 MW).

### **Magnolia Power Project (MPP)**

In March 2003, the City entered into a power sales agreement with the Authority for the MPP. MPP commenced commercial operation in September 2005. MPP is a combined-cycle, natural gas-fired generation plant with a nominally rate net base capacity of 242 MW, but can boost its output to 310 MW if needed. The City is obligated for 97.6 MW or 30.992% of its output. The City is also MPP's operating agent.

### **Natural Gas Project**

The Natural Gas Project was acquired by the Authority in 2005 and 2006 and is being developed for the primary purpose of providing the participants with stable long-term supplies of gas for the purpose of fueling their electric generation needs.

The Authority issued 2008 Bonds to provide monies for the refinancing of the City's share of the costs of acquisition and development of the Natural Gas Project through the redemption of a portion of the Authority's Draw Down Bonds previously issued for the Natural Gas Project.

The Authority has sold entitlements to 100% of the production capacity of the Natural Gas Project pursuant to separate Gas Sales Agreements with the five participants. The participants are obligated to pay for such production capacity, including amounts required to pay debt service on bonds issued to finance their respective share of the Natural Gas Project, on a "take or pay" basis. The City has 14.2857% entitlement shares in the Pinedale, Wyoming Subproject (2005 purchase), and 27.2727% entitlement shares in the Barnett, Texas Subproject (2006 purchase).

### **(b) INTERMOUNTAIN POWER AGENCY (IPA)**

In 1980, the City, along with the cities of Los Angeles, Anaheim, Glendale, Pasadena and Riverside, entered into a power sales contract with IPA, which obligates each California purchaser to purchase, on a "take or pay" basis, a percentage share of capacity and energy generated by the IPP. The City, through contract, is entitled to 60 MW or 3.371% of the 1,800 MW of generation at the plant. In addition, the City entered into an Excess Power Sales Agreement, also on a "take or pay" contract, with Utah municipal and cooperative IPP purchasers, which provides for the City to obtain up to an additional 0.797% (14 MW) when not used by the Utah municipal or cooperative IPP purchasers.

A summary of the City of Burbank "take or pay" contracts and related projects and its contingent liability at June 30, 2009 is as follows:

	<b>Bonds and notes outstanding</b>	<b>City of Burbank portion</b>	<b>City of Burbank share of bonds</b>	<b>City of Burbank obligation relating to total debt service</b>
SCPPA:				
Hoover Uprating	\$ 15,975	15.957%	\$ 2,549	\$ 3,230
Southern Transmission System	931,290	4.498%	41,889	62,212
Mead-Adelanto	199,920	11.534%	23,059	29,840
Mead-Phoenix	63,510	15.400%	9,781	12,603
Palo Verde	99,830	4.400%	4,393	4,860
Magnolia Power Project (Project A)	375,015	32.350%	121,317	190,691
Natural Gas Project - Pinedale	10,134	100.000%	10,134	15,425
Natural Gas Project - Barnett	31,386	100.000%	31,386	47,777
Natural Gas Prepaid Project #1	504,445	33.099%	166,966	355,801
Intermountain Power Project	2,807,040	3.371%	94,625	123,330
<b>Total</b>	<b>\$ 5,038,545</b>	<b>10.045%</b>	<b>\$ 506,099</b>	<b>\$ 845,769</b>

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

The following schedule details the amount of principal and interest that is due and payable by the City as part of the “take or pay” contract for each project in the fiscal year indicated (year ending June 30).

	2009/10		2010/11		2011/12	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	\$ 236	122	246	113	255	103
IPP STS	1,376	1,019	1,484	1,981	1,604	1,896
Mead-Adelanto	1,093	536	1,556	1,092	1,650	990
Mead-Phoenix	442	232	754	474	799	424
Palo Verde	456	9	441	98	455	87
Magnolia Power Project	2,737	1,074	2,835	4,303	2,958	4,183
Natural Gas Project-Pinedale	531	254	787	489	896	462
Natural Gas Project-Barnett	1,644	787	2,438	1,516	2,774	1,430
Natural Gas Prepaid Project #1	-	8,467	1,862	8,420	1,892	8,327
Intermountain Power Project	4,788	4,050	7,523	3,896	6,992	3,353
<b>Total</b>	<b>\$ 13,303</b>	<b>16,550</b>	<b>19,926</b>	<b>22,382</b>	<b>20,275</b>	<b>21,255</b>
	2012/13		2013/14		2015/19	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	\$ 267	93	280	79	1,266	170
IPP STS	2,435	1,804	2,151	1,679	11,753	7,203
Mead-Adelanto	1,757	881	1,876	765	10,432	2,240
Mead-Phoenix	852	372	909	315	4,154	894
Palo Verde	469	76	483	64	2,089	133
Magnolia Power Project	3,080	4,061	3,220	3,925	15,321	17,333
Natural Gas Project-Pinedale	660	427	570	400	2,552	1,594
Natural Gas Project-Barnett	2,045	1,323	1,765	1,238	7,903	4,937
Natural Gas Prepaid Project #1	1,753	8,235	1,590	8,152	6,916	39,720
Intermountain Power Project	5,978	3,281	7,415	2,750	35,432	9,770
<b>Total</b>	<b>\$ 19,296</b>	<b>20,553</b>	<b>20,259</b>	<b>19,367</b>	<b>97,818</b>	<b>83,994</b>
	2020/24		2025/29		2030/34	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	\$ -	-	-	-	-	-
IPP STS	15,464	3,874	5,623	866	-	-
Mead-Adelanto	4,694	278	-	-	-	-
Mead-Phoenix	1,871	111	-	-	-	-
Palo Verde	-	-	-	-	-	-
Magnolia Power Project	14,624	13,889	20,049	10,763	24,474	7,363
Natural Gas Project-Pinedale	1,780	985	1,387	536	970	145
Natural Gas Project-Barnett	5,514	3,053	4,298	1,659	3,005	448
Natural Gas Prepaid Project #1	12,644	37,386	23,934	32,668	39,616	24,642
Intermountain Power Project	26,498	1,604	-	-	-	-
<b>Total</b>	<b>\$ 83,089</b>	<b>61,180</b>	<b>55,291</b>	<b>46,492</b>	<b>68,065</b>	<b>32,598</b>
	2035/39		2040/43			
	Principal	Interest	Principal	Interest		
SCPPA:						
Hoover Uprating	\$ -	-	-	-		
IPP STS	-	-	-	-		
Mead-Adelanto	-	-	-	-		
Mead-Phoenix	-	-	-	-		
Palo Verde	-	-	-	-		
Magnolia Power Project	32,019	2,480	-	-		
Natural Gas Project-Pinedale	-	-	-	-		
Natural Gas Project-Barnett	-	-	-	-		
Natural Gas Prepaid Project #1	58,990	12,370	17,769	448		
Intermountain Power Project	-	-	-	-		
<b>Total</b>	<b>\$ 91,009</b>	<b>14,850</b>	<b>17,769</b>	<b>448</b>		

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

\$ in thousands

## Hedge Policies and Outstanding Hedge Contracts

The Electric Utility Fund utilizes natural gas hedging as outlined in the Energy Risk Management Policy. The purpose of hedging is to protect against fluctuating prices and deliver stable and competitive rates to its retail customers. Currently, the Electric Utility Fund (“Buyer”) has financial natural gas swap agreements with a few low risk counterparties (“Seller”) in place. The Buyer pays the agreed or fixed price and the Seller pays the floating market price. Depending on the price at the delivery month, Buyer will make payments or receive payments based on the price differentials. The financial settlements will either offset or add to the actual price of natural gas purchased at the spot market. These contracts are not included within the scope of GASB 53 because they are entered in for the purpose of gas/electricity use in the normal course of operations.

## NOTE 12: Purchased Power and Fuel Expenses - Wholesale

The Electric Utility Fund has been involved in the wholesale market for many years. Since 2000, the Electric Utility Fund’s strategy has been one of primarily optimizing revenues from temporarily underutilized electric assets to develop wholesale net margins that reduce its power supply expenses.

	<b>2009</b>	<b>2008</b>
Wholesale revenues	\$ 120,716	220,177
Wholesale costs	116,544	212,823
<b>Wholesale margin</b>	<b>\$ 4,172</b>	<b>7,354</b>

The Wholesale volume was lower compared to last fiscal year due to lower energy prices and less energy trading activity in the market.

## NOTE 13: Defined Benefit Pension Plan and Post-Retirement Health Care Benefits

Water and Electric Utility Fund employees participate with other City employees in the California Public Employees Retirement System (“PERS”), a multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Prior to July 1, 2008, the Water and Electric Utility Funds made 7% contributions on behalf of its employees. Effective July 1, 2008, the Water and Electric Utility Fund increased this contribution to 8%. The Water and Electric Utility Fund is required to contribute at an actuarially determined rate. In fiscal year 2008-2009, the Water and Electric Utility Fund, as employer, was required to contribute 9.752%. The contribution requirements of plan members and the City are established, and may be amended, by PERS.

PERS does not provide data to participating organizations in such a manner as to facilitate separate disclosure for the Water and Electric Utility Funds of the actuarially computed pension benefit obligation and the plans’ net assets available for benefits.

## CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

Water and Electric Utility Fund annual pension costs are as follows:

Fiscal Year Ending	Annual Pension Cost ("APC")		Percentage of APC Contributed
	Electric	Water	
June 30, 2007	3,220	611	100%
June 30, 2008	3,781	696	100%
June 30, 2009	3,945	696	100%

Additional information regarding the defined benefit pension plan can be found in the City's Comprehensive Annual Financial Report.

In addition to providing pension benefits, the Water and Electric Utility Fund, as part of the City, provides certain health care benefits for retired employees. Burbank Employees Retiree Medical Trust ("BERMT") was established in April 2003 by the City to provide post-retirement medical benefits to all non-safety employees, including elected and appointed officials. Plan provisions and contribution requirements are established by and may be amended by the City Council. Eligibility for benefits require that members have reached age 58 with a minimum of 5 years of contributions into the plan. However, no benefits were paid prior to April 2009. Additional information regarding the health care benefits for retired employees can be found in the City's Comprehensive Annual Financial Report.

### Other Post Employment Benefits

The Water and Electric Utility Funds, as part of the City, also make contributions for other post employment benefits ("OPEB"). The Water and Electric Utility Funds assume their share of OPEB costs based upon the results of actuarial studies. No separate obligations are calculated for the Water and Electric Utility Funds for the BERMT and the CalPERS Healthcare ("PEMHCA"); and accordingly, no obligation is presented herein. In addition, the City entered into an agreement to provide certain OPEB to the International Brotherhood of Electrical Workers ("IBEW") employees on July 22, 2008. The agreement is for IBEW members and 7 management employees as a supplement to benefit payments from BERMT and PEMHCA. The total target benefit is \$600/month for the first 2 years, including payments from BERMT, PEMHCA minimum and IBEW Retiree Medical Trust Fund. The Electric Utility Fund accrued an Annual Required Contribution of \$510 in its fiscal year 2008-2009 operating expenses and the estimated unfunded actuarial accrued liability is \$4,152. Further information regarding the City's participation in PERS and OPEB may be found in the City's Comprehensive Annual Financial Report.

### NOTE 14: Self-Insurance Program

The Water and Electric Utility Funds are in the City's self-insurance program as part of its policy to self-insure certain levels of risk within separate lines of coverage to maximize cost savings. The City has chosen to self-insure its liability exposure for the first \$1,000 of any loss. Additional coverage of \$4,000 is purchased through ACCEL, the Authority for California Cities Excess Liability. The City then purchased additional coverage from commercial market for total coverage of \$40,000.

The workers' compensation coverage is purchased through a pooling agreement. The City self-insures the first \$2,000 of each loss and then the pool covers all losses to statutory limits. The City charges the Water and Electric Utility Funds a premium based upon the proportional payroll cost, job classification, and claim history.

Additional information regarding all the City's self-insurance programs can be found in the City's Comprehensive Annual Financial Report.

# **CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements • Year ended June 30, 2009

*\$ in thousands*

## **NOTE 15: Contingencies**

### **LITIGATION RELATED TO ALLEGED OVERCHARGES FOR THE SALE OF POWER**

The City made bilateral sales of energy and ancillary services during the period of May 2000 to February 2001, in order to assist the California Independent System Operator ("CAL ISO") in maintaining reliability in the region, and in response to a federal order by the Department of Energy requiring generators in the region to sell power to the CAL ISO. The CAL ISO in turn resold at least some portion of this power to its customers and entities participating in its markets. The three investor-owned utilities in California, each of whom purchased energy and ancillary services from the CAL ISO during this period, are presently pursuing claims in state and federal courts in which they seek to impose refund liability on the City and other similarly-situated publicly-owned utilities for their sales to the CAL ISO. The Electric Utility Fund's management believes that the ultimate outcome of these matters will not have a material impact on the financial condition of the utility.

### **OTHER LITIGATION**

The City is presently involved in certain other matters of litigation that have arisen in the normal course of conducting its water and electric operations. City management believes, based upon consultation with the City attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact to the City over and above the amounts recorded as claims liability. Additionally, City management believes that the claims liability recorded within the City's internal self-insurance fund is sufficient to cover any potential losses, should an unfavorable outcome result.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Supplementary Information • Historical Summary Schedules

## SCHEDULE 1: Annual Electric Supply

Fiscal Year ended June 30, 2009

Resource	MWh	Percentage
Intermountain Power Project	501,800	39.3%
Hoover Upgrading	21,200	1.7%
Palo Verde Nuclear	79,600	6.2%
Magnolia Power Project	442,600	34.7%
Firm Contracts	62,900	4.9%
Non-Firm Contracts	114,400	9.0%
On-Site Generation	23,300	1.8%
Renewables	31,000	2.4%
<b>TOTAL</b>	<b>1,276,800</b>	<b>100.0%</b>

## SCHEDULE 2: Customers, Sales, Electric Revenues and Demand

Fiscal Years ended June 30; \$ in thousands

	2009	2008	2007	2006	2005
Number of Retail Customers:					
Residential	44,499	44,279	44,009	43,973	43,930
Commercial <sup>1</sup>	6,553	6,537	6,299	6,288	6,274
Large Commercial <sup>1</sup>	81	71	164	167	167
Other <sup>1,2</sup>	234	264	289	274	262
<b>Total</b>	<b>51,367</b>	<b>51,151</b>	<b>50,762</b>	<b>50,702</b>	<b>50,633</b>
Retail Kilowatt-hour Sales (millions):					
Residential	286	286	285	268	259
Commercial	309	282	257	244	241
Large Commercial	553	578	613	588	535
Other <sup>2</sup>	37	34	33	38	58
<b>Total</b>	<b>1,184</b>	<b>1,180</b>	<b>1,188</b>	<b>1,138</b>	<b>1,093</b>
Electric Revenues:					
Retail	\$ 158,039	155,514	153,916	143,487	136,304
Wholesale	120,716	220,177	207,259	195,512	110,037
Miscellaneous <sup>3</sup>	8,834	6,476	7,585	6,159	5,494
<b>Total</b>	<b>\$ 287,589</b>	<b>382,167</b>	<b>368,760</b>	<b>345,158</b>	<b>251,835</b>
<b>Peak Demand (MW)</b>	<b>289</b>	<b>308</b>	<b>307</b>	<b>284</b>	<b>281</b>

<sup>1</sup> Restructured commercial and large commercial customer classes starting January 1, 2008

<sup>2</sup> Other includes school, street lighting and miscellaneous users

<sup>3</sup> Other operating revenues include transmission, telecommunications and other miscellaneous revenues

## SCHEDULE 3: Weighted Average Billing Price – Electric<sup>1</sup>

Fiscal Years ended June 30; cents per kilowatt-hour

	2009	2008	2007	2006	2005
Residential	13.27	13.07	12.93	12.38	12.34
Commercial	13.93	13.45	13.20	12.69	13.17
Large Commercial	12.22	11.86	11.98	11.55	11.73
Weighted Average Electric Rate	12.94	12.55	12.47	12.01	12.18

<sup>1</sup> All weighted average rates have been adjusted to exclude Public Benefits and Street Lighting.

# CITY OF BURBANK • WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Supplementary Information • Historical Summary Schedules

## SCHEDULE 4: Annual Water Supply

Fiscal Year ended June 30, 2009

Resource	A.F.	Percentage
Metropolitan Water District	12,070	57.8%
Local Production – BOU	8,818	42.2%
<b>TOTAL</b>	<b>20,888</b>	<b>100.0%</b>

## SCHEDULE 5: Customers, Water Sales, Water Revenues

Fiscal Years ended June 30; \$ in thousands

	2009	2008	2007	2006	2005
Number of Potable Water Customers:					
Residential	22,033	22,043	22,046	22,050	22,104
Commercial	3,100	3,100	3,073	3,072	3,069
Large Commercial	114	116	114	114	121
Other <sup>1</sup>	1,206	1,112	1,104	1,102	1,096
<b>Total</b>	<b>26,453</b>	<b>26,371</b>	<b>26,337</b>	<b>26,338</b>	<b>26,390</b>
CCF Sales Per Year (x1,000):					
Potable					
Residential	6,556	6,942	7,381	6,755	6,620
Commercial	1,695	1,732	1,930	1,749	1,852
Large Commercial	356	364	373	370	344
Other <sup>1</sup>	377	409	305	338	256
Recycled	794	912	953	514	418
<b>Total</b>	<b>9,778</b>	<b>10,359</b>	<b>10,942</b>	<b>9,726</b>	<b>9,490</b>
Water Revenues:					
Retail <sup>2</sup>	\$ 20,853	22,503	18,777	16,805	16,420
Miscellaneous <sup>3</sup>	519	721	841	2,131	819
<b>Total</b>	<b>\$ 21,372</b>	<b>23,224</b>	<b>19,618</b>	<b>18,936</b>	<b>17,239</b>
<b>Maximum Day (Million gallons)</b>	<b>29.0</b>	<b>30.8</b>	<b>33.0</b>	<b>31.9</b>	<b>35.1</b>

<sup>1</sup> Other includes City department water, school, fire protection, and miscellaneous users

<sup>2</sup> Potable and Recycled

<sup>3</sup> Other operating revenues include connection fees, recycled water credits and other miscellaneous revenues

## SCHEDULE 6: Weighted Average Billing Price – Water

Fiscal Years ended June 30; \$ per CCF

	2009	2008	2007	2006	2005
Residential	2.17	1.99	1.84	1.81	1.75
Commercial	1.99	1.84	1.74	1.67	1.59
Large Commercial	1.85	1.74	1.67	1.58	1.54
Weighted Average Water Rate	2.12	1.95	1.82	1.78	1.71

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

#### THE INDENTURE

*Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.*

#### **Definitions**

**“Accreted Value”** means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

**“Accrued Aggregate Debt Service”** means, as of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series of Bonds, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Outstanding Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) principal due and unpaid and that portion of the principal for such Series next due which would have accrued if deemed to accrue to the end of such calendar month if such principal were deemed to accrue daily in equal amounts from the next preceding principal payment date for such Series (or, if there shall be no such preceding principal payment date, from a date one (1) year preceding the due date of such principal installment or from the date of issuance of the Bonds of such Series, whichever period is shorter).

**“Adjusted Electric Net Revenues”** means the Electric Net Revenues plus, for purposes of determining compliance with the rate covenant contained in the Indenture only, other lawfully available funds of the City budgeted by the City for the payment of Electric Operating Expenses or Debt Service on the Bonds and/or any Parity Debt during such Fiscal Year.

**“Annual Debt Service”** means, for any Fiscal Year, the aggregate amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

**“Assumed Debt Service”** means, for any Fiscal Year, the aggregate amount of principal and interest which would be payable on all Bonds and Parity Debt if each Excluded Principal Payment were amortized for a period specified by the City (but no longer than thirty (30) years from the date of the issuance of the Bonds or Parity Debt to which such Excluded Principal Payment relates) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which the City could borrow for such period, as certified by a certificate of a financial advisor or investment banker delivered to the Trustee, who may rely conclusively on such certificate, within thirty (30) days of the date of calculation.

**“Average Annual Debt Service”** means, as of any date of calculation, an amount equal to (i) the Annual Debt Service remaining to be paid on all Bonds and Parity Debt on the date of calculation, divided by (ii) the number of Fiscal Years (or partial years) commencing with the Fiscal Year of the date of calculation to and including the Fiscal Year which includes the first date on which none of such Bonds or Parity Debt remains Outstanding. Such interest and principal will be calculated on the assumption that no Bonds or Parity Debt at the date of calculation will cease to be Outstanding except by reason of the payment when due of each principal installment (including mandatory sinking account payments).

**“Bond Obligation”** means, as of any given date of calculation, (1) with respect to any Outstanding Bond which is Current Interest Indebtedness, the principal amount thereof, and (2) with respect to any Outstanding Bond which is Capital Appreciation Indebtedness, the Accreted Value thereof.

**“Bonds”** means the Burbank Water and Power Electric Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

**“Business Day”** means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

**“Capital Appreciation Indebtedness”** means Bonds and Parity Debt on which interest is compounded and paid less frequently than annually.

**“Certificate,” “Statement,” “Request,” “Requisition” or “Order”** of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager or any other person authorized by the City Manager to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, certificates and opinions will include the statements provided for in the Indenture.

**“Charter”** means the City Charter of the City, as amended from time to time.

**“City”** means the City of Burbank, California.

**“City Code”** means the Municipal Code of the City, as amended from time to time.

**“Code”** means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, as amended from time to time.

**“Costs of Issuance”** means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning the Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance and credit enhancement costs, and any other cost, charge or fee in connection with the delivery of Bonds.

**“Council”** means the City Council of the City.

**“Coverage Requirement”** means, for any Fiscal Year, an amount of Adjusted Electric Net Revenues equal to at least 1.20 times the amount of the Annual Debt Service for such Fiscal Year.

**“Current Interest Indebtedness”** means the Bonds and Parity Debt on which interest is paid at least annually.

**“Debt Service”** means, prior to and after the Transition Date, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt provided, however, that for the purposes of computing Debt Service:

(a) Excluded Principal Payments will be excluded from such calculation and Assumed Debt Service will be included in such calculation;

(b) if the Bonds or Parity Debt are Variable Rate Indebtedness, the interest rate thereon for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the rate that is ninety percent (90%) of the average RBI during the twelve (12) calendar month period immediately preceding the date in which the calculation is made (the “assumed RBI-based rate”);

(c) principal and interest payments on Bonds and Parity Debt will be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or another fiduciary in escrow specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Bonds or Parity Debt held by the Trustee or another fiduciary as capitalized interest;

(d) in determining the principal amount, payment will (unless a different paragraph of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any mandatory sinking fund payments or any scheduled redemption or payment of Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date of such Capital Appreciation Indebtedness;

(e) if any interest rate swap agreement is in effect with respect to, and is payable on a parity with, the Bonds or Parity Debt to which it relates, no amounts payable under such interest rate swap agreement will be included in the calculation of Debt Service unless the sum of (i) interest payable on such Bonds or Parity Debt, plus (ii) amounts payable by the City under such interest rate swap agreement, less (iii) amounts receivable by the City under such interest rate swap agreement are greater than the interest payable on the Bonds or Parity Debt to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Bonds or Parity Debt will be included in such calculation. For such purposes, the variable amount under any such interest rate swap agreement will be assumed to be equal to the assumed RBI-based rate; and

(f) if any Bonds or Parity Debt include an option or an obligation to tender all or a portion of such Bonds or Parity Debt to the City, the Trustee or another fiduciary or agent and require that such Bonds or Parity Debt or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due, the options or obligations to tender will be treated as a principal maturity occurring on the first date on which holders or owners thereof may or are required to tender, except that any such option or obligation to tender will be ignored and not treated as a principal maturity, if (1) such Bonds or Parity Debt are rated in one of the two highest long-term Rating Categories by Moody’s and by Standard & Poor’s or such Bonds or Parity Debt are rated in the highest short-term note or commercial paper Rating Categories by Moody’s and by Standard & Poor’s and (2) funds for the purchase price are to be provided by a letter of credit or standby bond purchase agreement and the obligation of the City with respect to the provider of such letter of credit or standby bond purchase agreement, other

than its obligations on such Bonds or Parity Debt, will be subordinated to the obligation of the City on the Bonds and Parity Debt.

On and after the Transition Date, in addition to paragraphs (a) through (f) above, the following paragraph (g) will be added to the definition of Debt Service:

(g) if interest on any Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code, or any future similar program (a “Federal Subsidy”), then interest payments with respect to such Bonds or Parity Debt may be reduced by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America at the election of the City.

**“Defeasance Securities”** means any of the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks and Federal Home Loan Mortgage Corporation to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i) including, but not limited to, REFCORP interest strips; or

(iii) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate, and (d) which have been rated not lower than their respective ratings on the Bonds by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds);

**“Department”** means the Burbank Water and Power of the City of Burbank.

**“Effective Date”** means the first date on which all Senior Bonds have been paid or discharged in accordance with their terms.

**“Electric Net Revenues”** means: (i) prior to the Effective Date, the amount of Enterprise Subordinated Net Revenues determined by the City in accordance with Generally Accepted Accounting Principles Applicable to Governments to be properly allocable to the Electric System, and (ii) on and after the Effective Date, the amount of Electric Revenues of the Electric System remaining after payment therefrom of the Electric Operating Expenses.

**“Electric Operating Expenses”** means, on and after the Effective Date, the amount required to pay the expenses of management, repair and other costs necessary to operate, maintain and preserve the Electric System in good repair and working order, including but not limited to, the cost of supply and transmission of electric energy under long-term contracts or otherwise and the expenses of conducting the Electric System, but excluding depreciation. “Electric Operating Expenses” will include all amounts required to be paid by the City under contract with a joint powers agency for purchase of capacity, energy, transmission capability or any other commodities or services in connection with the foregoing, which contract requires payments by the City to be made under the Indenture to be treated as Electric Operating Expenses.

**“Electric Revenues”** means, on and after the Effective Date and prior to the Transition Date, all revenues (as defined in Section 54315 of the Government Code, which include all charges received for and all other income and receipts derived by the Department from the operation of the Electric System or arising from the Electric System) received by the Department from the services, facilities, energy and distribution of electric energy by the Department, including income from investments, but excepting therefrom (a) all reimbursement charges and deposits to secure service and (b) any charges collected by any person to amortize, or otherwise relating to the payment of, the uneconomic portion of costs associated with assets and obligations (“stranded costs”) of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds or any Parity Debt then outstanding, the payments of which obligations will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City; and, on and after the Transition Date, all revenues (as defined in Section 54315 of the Government Code, which include all charges received for and all other income and receipts derived by the Department from the operation of the Electric System or arising from the Electric System) received by the Department from the services, facilities, energy and distribution of electric energy by the Department, including income from investments, but excepting therefrom (a) all reimbursement charges and deposits to secure service, (b) any charges collected by any person to amortize, or otherwise relating to the payment of, the uneconomic portion of costs associated with assets and obligations (“stranded costs”) of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds or any Parity Debt then outstanding, the payments of which obligations will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City, and (c) any Federal Subsidy, if elected by the City; provided, that such subsidy is not excluded from the definition of Debt Service pursuant to paragraph (g) of that definition.

**“Electric System”** means the entire system and facilities of the City for the generation, transmission and distribution of electric energy as said system now exists and including all additions, extensions and improvements thereto later constructed or acquired.

**“Enterprise”** means the Electric System and the Water System.

**“Enterprise Net Revenues”** means, prior to the Effective Date, the amount of Enterprise Revenues of the Enterprise remaining after payment therefrom of the Enterprise Operating Expenses.

**“Enterprise Operating Expenses”** means, prior to the Effective Date, the amount required to pay the reasonable expenses of management, repair and other costs necessary to operate, maintain and preserve the Enterprise in good repair and working order, excluding depreciation but including the City’s obligations under (i) a Power Sales Contract, dated August 6, 1980, as amended, with the Intermountain Power Agency; (ii) an Agreement for Acquisition of Capacity, dated as of May 1, 1983, with the Southern California Public Power Authority (“SCPPA”); (iii) a Transmission Service Contract, dated as of May 1, 1983, with SCPPA; (iv) a Power Sales Contract, dated July 1, 1981, with SCPPA; (v) a Transmission Service Contract, dated as of August 4, 1992, with SCPPA relating to the Mead-Adelanto transmission project; (vi) a Transmission Service Contract, dated as of August 4, 1992, with SCPPA relating to the Mead-Phoenix transmission project; and (vii) other similar contracts and amendments to such contracts entered into or adopted hereafter.

**“Enterprise Revenues”** means, prior to the Effective Date, all revenues (as defined in Section 54315 of the Government Code, which include all charges received for and all other income and receipts derived by the Department from the operation of the Electric System and the Water System or arising from the Electric System and the Water System) received by the Department from the services, facilities, energy and distribution of electric energy and water by the Department, including income from investments, but excepting therefrom all reimbursement charges and deposits to secure service.

**“Enterprise Subordinated Net Revenues”** means, prior to the Effective Date, all Enterprise Net Revenues less all amounts required to be paid under the Senior Indenture for principal, interest, reserve fund and any other debt service requirements on the Senior Bonds as the same become due and payable, which Enterprise Subordinated Net Revenues the City will direct the Senior Trustee pursuant to the Senior Indenture to transfer to the City from the General Reserve Fund established pursuant to the Senior Indenture for deposit in the Electric Revenue Fund pursuant to the Indenture.

**“Event of Default”** means any of the events specified as such in the Indenture.

**“Excluded Principal Payments”** means each payment of principal (or the principal component of lease or installment purchase payments) of Bonds or Parity Debt which the City determines on a date not later than the date of issuance thereof that the City intends to pay with moneys that are not Electric Revenues or Electric Net Revenues, but from the proceeds of future debt obligations of the City and the Trustee may rely conclusively on such determination of the City.

**“Fiscal Year”** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City which designation will be provided to the Trustee in a certificate of the City.

**“Future Bonds”** means all Bonds issued after the Transition Date.

**“Generally Accepted Accounting Principles Applicable to Governments”** means generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board or its successor.

**“Indenture”** means this Public Service Department Electric Revenue Bond Indenture, dated as of October 1, 1998, by and between the City and the Trustee, as originally executed and as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

**“Investment Securities”** means the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation;

(iv) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that at the time of their purchase such obligations are rated not lower than their respective ratings on the Bonds by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds);

(v) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i), (ii) or (iii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i), (ii) or (iii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (v) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (v), as appropriate, and (d) which have been rated not lower than their respective ratings on the Bonds by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds);

(vi) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds) in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated not lower than their respective ratings on the Bonds by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds);

(vii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the

United States of America or any national banking association (including the Trustee), provided that such certificates of deposit will be purchased directly from such a bank, trust company or national banking association and will be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (iv), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(viii) taxable commercial paper or tax-exempt commercial paper, rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(ix) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation provided that the variable rate obligations themselves are rated in their respective highest Rating Categories for its short-term rating, if any, and not lower than their respective ratings on the Bonds for its long-term rating, if any, by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds), and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(x) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) and with short-term debt rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective four highest short-term rating categories or with government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii) or (iii) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(xi) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of

this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of this definition of Investment Securities and which money market fund is rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds); provided that as used in this clause (xi) and clause (xii) investments will be deemed to satisfy the requirements of clause (x) if they meet the requirements set forth in clause (x) ending with the words "clauses (i), (ii) or (iii) above" and without regard to the remainder of such clause (x);

(xii) investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that the terms of the investment agreement shall be approved in writing by each insurer of the Bonds, if any;

(xiii) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xii) of this definition of Investment Securities and which companies are rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) or have an investment advisor registered with the Securities and Exchange Commission with not less than 5 years experience investing in such securities and obligations and with assets under management in excess of \$500,000,000; and

(xiv) any investment approved by the Council.

**"Maximum Annual Debt Service"** means the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

**"Moody's"** means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**"Opinion of Bond Counsel"** means a written opinion of a law firm of national standing in the field of public finance selected by the City.

**"Outstanding,"** when used as of any particular time with reference to Bonds, means (subject to certain provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

**"Owner"** or **"Bondholder"** or **"Bondowner,"** whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

**“Participating Bonds”** means all Bonds Outstanding as of the Transition Date and all Future Bonds other than Future Bonds which are designated by the City as Bonds that will not constitute Participating Bonds in accordance with the provisions of the Indenture.

**“Parity Debt”** means, any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money or interest rate swap agreement having an equal lien and charge upon the Electric Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

**“Rating Category”** means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

**“RBI”** means the Bond Buyer Revenue Bond Index or comparable index of long-term municipal obligations chosen by the City, and, if no comparable index can be obtained, eighty percent (80%) of the interest rate on actively traded thirty (30) year United States Treasury obligations.

**“Redemption Price”** means, with respect to any Bond (or portion thereof) the Bond Obligation of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

**“Reserve Fund Requirement”** means, prior to the Transition Date, as of any date of determination and excluding any Parity Debt for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the least of (a) ten percent (10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, or (b) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (c) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, all as computed and determined by the City and specified in writing to the Trustee; and, on and after the Transition Date, as of any date of calculation, (i) with respect to the Parity Reserve Fund, an amount equal to one-half of the greatest amount of principal and interest becoming due and payable on all Outstanding Participating Bonds in the then current or any future Fiscal Year, net of any expected Federal Subsidy, and (ii) with respect to any Series Reserve Fund for a Series of Future Bonds that do not constitute Participating Bonds, the reserve fund requirement (which reserve fund requirement may be zero (\$0)), specified for such Series of Future Bonds in a Supplemental Indenture setting forth the terms of such Future Bonds, all as computed and determined by the City and specified in writing to the Trustee.

**“Senior Bonds”** means all bonds of the City issued pursuant to the Senior Indenture.

**“Senior Indenture”** means the Indenture of Trust securing the City of Burbank, California Public Service Department Refunding Revenue Bonds, 1987 Series A, the City of Burbank, California Public Service Department Electric and Water Revenue Bonds, 1992 Series A and the City of Burbank, California Public Service Department Refunding Revenue Bonds, 1993 Series A, dated as of March 1, 1987, between the City and Bank of America National Trust and Savings Association (which has been succeeded as trustee by U.S. Bank Trust National Association, which has been succeeded by Wells Fargo Bank, National Association), as trustee thereunder, as amended and supplemented from time to time.

**“Serial Bonds”** means Bonds, maturing in specified years, for which no mandatory sinking fund payments are provided.

“**Series,**” whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“**Series Reserve Fund**” means a Series Reserve Fund established for a Series of Future Bonds that do not constitute Participating Bonds as specified in a Supplemental Indenture setting forth the terms of such Series of Future Bonds.

“**Standard & Poor’s**” means Standard & Poor’s, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“**State**” means the State of California.

“**Supplemental Indenture**” means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“**Term Bonds**” means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“**Transition Date**” means the first date on which the 1998 Bonds, the 2001 Bonds and the 2002 Bonds have been paid or discharged in accordance with their terms and are no longer Outstanding for purposes of the Indenture.

“**Treasurer**” means the Treasurer of the City.

“**Variable Rate Indebtedness**” means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a single numerical rate for the entire term of the indebtedness.

“**1998 Bonds**” mean the \$45,160,000 City of Burbank, California Burbank Water and Power Electric Revenue Bonds, Series of 1998.

“**2001 Bonds**” mean the \$54,745,000 City of Burbank, California Burbank Water and Power Electric Revenue Bonds, Series of 2001.

“**2002 Bonds**” mean the \$25,000,000 City of Burbank, California Burbank Water and Power Electric Revenue Bonds, Series of 2002.

## Issuance of Bonds

*General.* The City may by Supplemental Indenture establish one or more Series of Bonds payable from Electric Net Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the City, but only, with respect to each Series of Bonds, upon compliance by the City with the provisions of the Indenture and any additional requirements set forth in said Supplemental Indenture and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Bonds:

- (a) no Event of Default shall have occurred and then be continuing;
- (b) the aggregate principal amount of Bonds issued shall not exceed any limitation imposed by law or otherwise;
- (c) prior to the Transition Date, there shall be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement; and, on and after the Transition Date, with respect to any additional Series of Bonds which are Participating Bonds, there shall be deposited in the Parity Reserve Fund, an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, and with respect to any additional Series of Bonds which do not constitute Participating Bonds, there shall be deposited in the Series Reserve Fund for such Series of Bonds, an amount of money equal to the Reserve Fund Requirement for such Series of Bonds; and
- (d) the City shall have placed on file with the Trustee a Certificate of the City certifying that the sum of: (1) the Electric Net Revenues, plus (2) 90 percent (90%) of the amount by which the City projects Electric Net Revenues for any period of twelve (12) consecutive months during the eighteen (18) months immediately preceding the date on which any additional Bonds or Parity Debt will become Outstanding would have been increased had increases in rates, fees and charges during such period of twelve (12) months been in effect throughout such period of twelve (12) months; plus (3) 75 percent (75%) of the amount by which the City projects Electric Net Revenues will increase during the period of twelve (12) months commencing on the date of issuance of such additional Bonds or Parity Debt due to improvements to the Electric System under construction (financed from any source) or to be financed with the proceeds of such additional Series of Bonds or Parity Debt, shall (4) have been at least equal to 1.20 times the amount of Maximum Annual Debt Service on all Bonds and Parity Debt then outstanding and the additional Bonds or Parity Debt then proposed to be issued.

In the event additional assets or revenues are included within the definition of “Electric Net Revenues” by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations in subsection (d) above, as appropriate, as if such additional assets or revenues had always been included in Electric Net Revenues.

*Proceedings for Issuance of Additional Series of Bonds.* Whenever the City shall determine to issue a Series of Bonds pursuant to the Indenture, the City shall authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the form or forms of Bonds of such additional Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal or Redemption Price, if any, of and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of the Indenture.

On and after the Transition Date, each additional Series of Bonds which are Future Bonds shall constitute Participating Bonds unless the Supplemental Indenture authorizing such Series of Future Bonds provides that such Series of Future Bonds shall not be Participating Bonds and, if such Series of Future Bonds shall not be Participating Bonds, provides for the establishment of a Series Reserve Fund for such Series of Future Bonds, provides for the pledge of amounts on deposit in such Series Reserve Fund to the payment of such Series of Future Bonds secured thereby, and establishes the Reserve Fund Requirement for such Series Reserve Fund.

Before such additional Series of Bonds shall be issued and delivered, the City shall file the following documents with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied):

- (a) an executed copy of the Supplemental Indenture authorizing such Series;
- (b) a Certificate of the City stating that no Event of Default has occurred and is then continuing;
- (c) an Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the City in accordance with the Indenture; that such Series, when duly executed by the City and authenticated and delivered by the Trustee, will be valid and binding limited obligations of the City, and that upon the delivery of such Series the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted by law or otherwise;
- (d) the Certificate of the City described in clause (d) under “*General*” above; and
- (e) a Certificate of the City or of an independent certified public accountant that upon delivery of such Bonds, the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted under the Indenture.

*Issuance of Refunding Bonds.* Notwithstanding any provisions in the Indenture, there shall be no limitation on the ability of the City to issue any Bonds at any time to refund any outstanding Bonds or Parity Debt issued pursuant to the Indenture; provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds shall not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded.

*Limitations on the Issuance of Obligations.* The City will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Electric Net Revenues, except the following:

- (a) Bonds of any Series authorized pursuant to the provisions described under “*General*” and “*Proceedings for Issuance of Additional Series of Bonds*” above;
- (b) refunding Bonds authorized pursuant to the provisions described under “*Issuance of Refunding Bonds*” above;
- (c) Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Electric Net Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:

- (1) such Parity Debt has been duly and legally authorized for any lawful purpose;
- (2) no Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the City filed with the Trustee;
- (3) unless such Parity Debt is for the refunding purposes described under “*Issuance of Refunding Bonds*” above, the City shall have obtained and placed on file with the Trustee a Certificate of the City that (on the basis of calculations as of the date of delivery of such Parity Debt) the requirements described in clause (d) under “*General*” above with respect to additional Bonds have been met with respect to such Parity Debt;
- (4) the City shall have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with law and constitutes a valid and binding obligation of the City payable from Electric Net Revenues on a parity with the Bonds; and
- (5) the Trustee shall be designated as paying agent or trustee for such Parity Debt and the City shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Debt (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Debt); or

(d) Obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Electric Net Revenues, after the prior payment of all amounts then required to be paid hereunder from Electric Net Revenues, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture.

#### **Pledge of Electric Net Revenues; Electric Revenue Fund**

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof exclusively, from Electric Net Revenues and from the other funds pledged under the Indenture. All Electric Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and any Parity Debt in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. There are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Said pledge will constitute a first lien on the Electric Net Revenues and amounts in such funds and will be valid and binding from and after delivery by the Trustee of the Bonds or Parity Debt, without any physical delivery thereof or further act.

The Electric Net Revenues are pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other and the Electric Net Revenues constitute a trust fund for the security and payment of the Bonds and Parity Debt; but nevertheless out of Electric Net Revenues, certain amounts may be applied for other purposes as provided in the Indenture.

Out of Electric Net Revenues, there will be applied, as set forth in the Indenture, all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any mandatory sinking fund payments of Bonds and Parity Debt and reserve fund requirements with respect thereto. All remaining Electric Net Revenues, after making the foregoing allocation, will be available to the City for all lawful City purposes. The pledge of Electric Net Revenues made in the Indenture will be irrevocable until all of the Bonds and all Parity Debt are no longer outstanding.

As long as any Bonds are Outstanding or any Parity Debt remains unpaid, the City will forthwith deposit in a fund, designated as the "Electric Revenue Fund," which fund the City will establish and maintain, all Electric Net Revenues when and as received by the City. Unless otherwise provided in the Indenture or in any Supplemental Indenture, investment income on amounts held by the City under the Indenture (other than amounts held in the Rebate Fund or for which particular instructions are provided in a Supplemental Indenture) will also be deposited in the Electric Revenue Fund. All moneys at any time held in the Electric Revenue Fund will be held in trust for the benefit of the Owners of the Bonds and Parity Debt and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

### **Payments Into Other Funds**

As soon as practicable in each month after the deposit of Electric Net Revenues into the Electric Revenue Fund, but in any case no later than the last Business Day of such month, the City will withdraw from the Electric Revenue Fund and pay to the Trustee for deposit in the following funds and accounts, in the following order, the amounts set forth below:

(a) prior to the Transition Date, in the Debt Service Fund established pursuant to the Indenture, the amount, if any, required so that the balance in said fund, including any subaccounts therein, to the extent moneys in such subaccounts are available to pay Accrued Aggregate Debt Service as of the last day of the then current month, will equal the Accrued Aggregate Debt Service as of the last day of the then current month; and, on and after the Transition Date, in the Debt Service Fund, the amount, if any, required so that the balance in said fund, including any subaccounts therein, to the extent moneys in such subaccounts are available to pay Accrued Aggregate Debt Service shall mean as of the last day of the then current month, shall equal the Accrued Aggregate Debt Service as of the last day of the then current month; provided, that for purposes of this paragraph (a) only, the calculation of accrued Debt Service with respect to the definition of Accrued Aggregate Debt Service shall be made without regard to paragraph (g) of the definition of Debt Service; and

(b) prior to the Transition Date, in the Parity Reserve Fund established pursuant to the Indenture, the amount, if any, required so that the amount credited to such fund will be at least equal to the Reserve Fund Requirement as of the last day of the then current month; and, on and after the Transition Date, in the Parity Reserve Fund and in each Series Reserve Fund established pursuant to a Supplemental Indenture the amount, if any, required so that the amount credited to such Parity Reserve Fund and each such Series Reserve Fund shall, except as otherwise provided in the Indenture, be at least equal to the respective Reserve Fund Requirement as of the last day of the then current month; provided, that the deposits to the Parity Reserve Fund and each Series Reserve Fund shall be made without preference or priority between such deposits and in the event of any deficiency in Electric Net Revenues to make the deposits required by this paragraph (b), such Electric Net Revenues shall be deposited into the Parity Reserve Fund and each Series Reserve Fund ratably based on the amount required to be deposited in each such fund, without discrimination or preference;

provided, that on a parity with such deposits, the City will set aside or transfer amounts to the appropriate accounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt).

### **Debt Service Fund**

The Trustee will establish and maintain and hold in trust so long as any Bonds remain Outstanding, a special fund designated as the "Debt Service Fund." The Trustee will pay out of the Debt Service Fund: (i) on or before each interest payment date for any Outstanding Bonds, the amount required for the interest payable on such date; (ii) on or before each principal payment date or redemption date, the amount required for the Bond Obligation payable on such due date (including any mandatory sinking fund payment to be paid on such date); and (iii) on or before any redemption date for Outstanding Bonds, the amount required for the payment of interest on such Bonds then to be redeemed. Such amounts will be applied for such purposes by the Trustee on the due date thereof. The Trustee will also pay out of the Debt Service Fund the accrued interest included in the purchase price of any Bonds, the Debt Service of which may be paid from the moneys in such fund, purchased for retirement.

On or prior to the forty-fifth (45<sup>th</sup>) day preceding the due date of each mandatory sinking fund payment, any amounts then on deposit in the Debt Service Fund with respect to any mandatory sinking fund payment (exclusive of amounts, if any, set aside in said fund which were deposited therein from the proceeds of Bonds, but inclusive of amounts accumulated therein with respect to interest on the Bonds for which such mandatory sinking fund payment is to be paid) may, and if so directed by the City will, be applied by the Trustee to the purchase of Bonds of the Series and maturity for which such mandatory sinking fund payment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such mandatory sinking fund payment. All purchases of any Bonds pursuant to this paragraph will be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases will be made by the Trustee as directed by the City. If directed by the City, on or prior to the forty-fifth (45<sup>th</sup>) day next preceding a mandatory sinking fund payment due date, there will be applied as a credit against such mandatory sinking fund payment, and there will be deemed to constitute part of the Debt Service Fund until such mandatory sinking fund payment due date, for the purpose of calculating the amount on deposit in such fund, the applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds of the Series and maturity for which such mandatory sinking fund payment was established, that were cancelled or delivered to the Trustee for cancellation on or prior to the forty-fifth (45<sup>th</sup>) day next preceding such mandatory sinking fund payment due date and that was not previously applied as a credit against a mandatory sinking fund payment, including any Bonds purchased pursuant to this paragraph and as to which the City has properly claimed a credit against the next mandatory sinking fund payment. As soon as practicable after the forty-fifth (45<sup>th</sup>) day preceding the due date of any such mandatory sinking fund payment, the Trustee will proceed to call for redemption on such date, Bonds of the Series and maturity for which such mandatory sinking fund payment was established (except in the case of Bonds maturing on a mandatory sinking fund payment due date). The Trustee will pay out of the Debt Service Fund, on or before such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amounts will be applied to such redemption (or payment).

The amount, if any, deposited in the Debt Service Fund, including any subaccount, from the proceeds of each Series of Bonds will be set aside in such fund and applied to the payment of interest on Bonds as provided in the Supplemental Indenture relating to the issuance of such Series of Bonds and will be deemed available to pay Accrued Aggregate Debt Service only to the extent so provided.

In the event of the refunding of one or more Bonds, the Trustee may, upon the direction of the City with the advice of Bond Counsel, withdraw from the Debt Service Fund amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts as directed by the City, to be held for the payment of the principal or Redemption Price, if applicable, or interest on the Bonds being refunded; provided that such withdrawal will not be made unless (a) immediately thereafter the Bonds being refunded will be deemed to have been paid pursuant the Indenture, and (b) the amount remaining in the Debt Service Fund after such withdrawal will not be less than the requirement of such fund pursuant to the Indenture.

Any provisions of the Indenture to the contrary notwithstanding, so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or Redemption Price, if applicable, and interest thereon), no deposits will be required to be made into the Debt Service Fund.

### **Parity Reserve Fund Prior to Transition Date**

The provisions under this caption “Parity Reserve Fund Prior to Transition Date” apply prior to the Transition Date.

The Trustee will establish and maintain and hold in trust so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the “Parity Reserve Fund.” Amounts on deposit in the Parity Reserve Fund are to the payment of the Bonds and any Parity Debt to be secured by the Parity Reserve Fund and will be applied only for such purposes as permitted in the Indenture. The Trustee will deposit in the Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there will be on deposit therein a sum equal to at least the amount required by this paragraph to be on deposit therein. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof will be provided to the insurer of the Bonds, if any, and such amount will be increased to the Reserve Fund Requirement as provided for in this paragraph not later than twelve months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) will be transferred by the Trustee to the Debt Service Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody’s and Standard & Poor’s, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described below) on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such letter of credit will have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit will provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such letter of credit, the City will either (i) deliver a replacement

letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements described below. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee will deliver the then-effective letter of credit to or upon the order of the City. If the City will fail to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City will immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Fund Requirement, as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee will draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund.

The City may also provide for all or any part of the Parity Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such surety bond or insurance policy will be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy will have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City will immediately implement (i) or (iii) of the paragraph above or make the required deposits to the Parity Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") will commence in the first month following each such draw, and will be paid at the time specified above in an amount not less than one-twelfth (1/12th) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the Parity Reserve Fund, all such cash will be used (including investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs will be made prior to any replenishment of any such cash amounts. If the City shall fail to repay any Policy Costs in accordance with the Indenture, the insurance company issuing such surety bond or insurance policy will be entitled to exercise any and all remedies available at law or under the Indenture other than (i) an acceleration of the interest on or principal of the Bonds as provided in the Indenture or (ii) any other remedy that would adversely affect Bondholders. The Trustee will ascertain the necessity for a claim upon any surety bond or insurance policy provided by the Indenture and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

In the event of any deficiency in the Debt Service Fund for the payment of principal and interest payments for the Bonds as described above, the Trustee will, after first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due, on a pro rata basis with respect to the portion of the Parity Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or

interest on, a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the Parity Reserve Fund so provide, will so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the Parity Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payments of the Bonds.

### **Parity Reserve Fund and Series Reserve Funds After Transition Date**

The provisions under this caption “Parity Reserve Fund and Series Reserve Funds After Transition Date” apply on and after the Transition Date.

The Trustee will establish and maintain and hold in trust so long as Participating Bonds remain Outstanding, a special fund designated as the “Parity Reserve Fund.” Amounts on deposit in the Parity Reserve Fund are hereby pledged to the payment of the Participating Bonds and shall be applied only for such purposes as hereinafter permitted. The Trustee shall establish and maintain and hold in trust so long as such Series of Future Bonds which are not Participating Bonds remains outstanding, a Series Reserve Fund for such Series of Future Bonds that are not Participating Bonds. For any Series of Future Bonds which are not Participating Bonds, amounts on deposit (if any) in each such Series Reserve Fund shall be pledged to the payment of the applicable Series of Future Bonds which are not Participating Bonds to be secured thereby and shall be applied only for such purposes as hereinafter permitted. The Trustee shall deposit in the Parity Reserve Fund and in each Series Reserve Fund, the amounts required to be deposited therein and such other amounts transferred to the Trustee by the City for deposit therein. No deposit need be made in the Parity Reserve Fund or any Series Reserve Fund so long as there shall be on deposit therein shall be equal to the respective Reserve Fund Requirement. Whenever the amount on deposit in the Parity Reserve Fund or any Series Reserve Fund is less than the applicable Reserve Fund Requirement, such amount will be increased to the applicable Reserve Fund Requirement as provided for in this paragraph not later than twelve months thereafter.

If on the last Business Day of any month, the amount on deposit in the Debt Service Fund shall be less than the amount required to be in such Debt Service Fund with respect to Participating Bonds, the Trustee shall apply amounts from the Parity Reserve Fund to the extent necessary to make good the deficiency with respect to the Participating Bonds; and if on the last Business Day of any month, the amount on deposit in the Debt Service Fund shall be less than the amount required to be in such Debt Service Fund with respect to any Series of Future Bonds for which a Series Reserve Fund has been established, the Trustee shall apply amounts (if any) from the applicable Series Reserve Fund to the extent necessary to make good the deficiency with respect to the Series of Future Bonds secured by such Series Reserve Fund.

Whenever the amount in the Parity Reserve Fund, together with the amount in the Debt Service Fund available for such purpose, is sufficient to pay in full all Outstanding Participating Bonds in accordance with their terms (including principal or applicable mandatory sinking fund payments and interest thereon), the funds on deposit in the Parity Reserve Fund shall be transferred to the Debt Service Fund and applied to the payment or redemption of the Participating Bonds. Whenever the amount in the Series Reserve Fund, together with the amount in the Debt Service Fund available for such purpose, is sufficient to pay in full all of the Outstanding Future Series of Bonds secured by such Series Reserve

Fund in accordance with their terms (including principal or applicable mandatory sinking fund payments and interest thereon), the funds on deposit in the applicable Series Reserve Fund shall be transferred to the Debt Service Fund and applied to the payment or redemption of the Series of Future Bonds secured by such Series Reserve Fund.

In the event of the refunding of any Participating Bonds, the Trustee may, upon the direction of the City with the advice of Bond Counsel, withdraw from the Parity Reserve Fund any amounts on deposit therein and deposit such amounts as directed by the City, to be held for the payment of the principal or Redemption Price, if applicable, or interest on the Participating Bonds being refunded; provided, that such withdrawal shall not be made unless (a) immediately thereafter any Participating Bonds being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Parity Reserve Fund after such withdrawal, taking into account any deposits to be made in the Parity Reserve Fund in connection with such refunding, shall not be less than the Reserve Fund Requirement with respect to the Parity Reserve Fund. In the event of the refunding of all or any portion of any Series of Future Bonds secured by a Series Reserve Fund, the Trustee may, upon the direction of the City with the advice of Bond Counsel, withdraw from such Series Reserve Fund any amounts on deposit therein and deposit such amounts as directed by the City, to be held for the payment of the principal or Redemption Price, if applicable, or interest on such Series of Future Bonds secured by such Series Reserve Fund or portion thereof being refunded; provided, that such withdrawal shall not be made unless (a) immediately thereafter such Series of Future Bonds or portion thereof being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Series Reserve Fund after such withdrawal shall not be less than the Reserve Fund Requirement with respect to such Series Reserve Fund.

Except as provided in the Indenture or as otherwise provided in a Supplemental Indenture, amounts on deposit in the Parity Reserve Fund or any Series Reserve Fund in excess of the respective Reserve Fund Requirement shall, at the written Request of the City, be withdrawn from the Parity Reserve Fund or Series Reserve Fund, as applicable, and transferred to the City and applied as permitted by Bond Counsel. Notwithstanding anything in the Indenture to the contrary, prior to and on and after the Transition Date, amounts on deposit in the Series 2010B Bond Reserve Subaccount in excess of the amount required to be on deposit therein and all interest, profits and other income from the investment of moneys in the Series 2010B Bond Reserve Subaccount shall, at the written Request of the City, be withdrawn from the Series 2010B Bond Reserve Subaccount and transferred to the City for deposit into the Series 2010B Electric System Fund.

The City may provide for all or any part of the Reserve Fund Requirement for the Parity Reserve Fund or any Series Reserve Fund by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's and Standard & Poor's at the time such letter of credit is issued, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in paragraph (G) below) on deposit in the Parity Reserve Fund or such Series Reserve Fund, equal to the applicable Reserve Fund Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the final maturity of the Participating Bonds or the Series of Future Bonds secured thereby, as applicable, and such letter of credit shall provide by its terms that it may be drawn upon as provided herein. At least one year prior to the stated expiration of such letter of credit, the City shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Participating Bonds or the Series of Future Bonds secured thereby, as applicable, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements of the next paragraph. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the order of the City. If the City shall fail to deposit a replacement letter of credit, extended letter of

credit, surety bond or insurance policy with the Trustee, the City shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund or Series Reserve Fund, as applicable, no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Fund Requirement, as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund or Series Reserve Fund, as applicable, one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund or Series Reserve Fund, as applicable.

The City may also provide for all or any part of the Parity Reserve Fund or any Series Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund or such Series Reserve Fund, as applicable, equal to the applicable Reserve Fund Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's and Standard & Poor's at the time such surety bond or insurance policy is issued. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Participating Bonds or the Series of Future Bonds secured thereby, as applicable. In the event that such surety bond or insurance policy for any reason lapses or expires, the City shall immediately implement (i) or (iii) of the immediately preceding paragraph or make the required deposits to the Parity Reserve Fund or Series Reserve Fund, as applicable.

The Trustee shall ascertain the necessity for a draw or claim upon any letter of credit, surety bond or insurance policy provided hereby and shall take such action as is necessary in accordance with the terms thereof to received payments with respect thereto (including the giving of notice as required thereunder) on any date on which moneys will be required to be withdrawn from the Parity Reserve Fund or a Series Reserve Fund, as applicable, and applied to the payment of the principal of or interest on any Participating Bonds or Series of Future Bonds secured by such Parity Reserve Fund or Series Reserve Fund and such withdrawal cannot be met by amounts on deposit in the Parity Reserve Fund or Series Reserve Fund, as applicable. If a disbursement is made pursuant to letter of credit, surety bond or insurance policy credited to the Parity Reserve Fund or any Series Reserve Fund, the City shall be obligated either (i) to reinstate the full amount of such letter of credit, surety bond or insurance policy or (ii) to deposit into the Parity Reserve Fund or Series Reserve Fund, as applicable, funds in the amount of such disbursement or a combination of such alternatives, as shall provide that the amount in the Parity Reserve Fund or such Series Reserve Fund, as applicable, is at least equal to the applicable Reserve Fund Requirement. So long as a letter of credit, surety bond or insurance policy shall be in full force and effect for purposes of funding all or any part of the Parity Reserve Fund or any Series Reserve Fund, as applicable, any deposits required to be made in the Parity Reserve Fund or a Series Reserve Fund shall include any amounts due to the provider of the letter of credit, surety bond or insurance policy resulting from a draw or claim upon such letter of credit, surety bond or insurance policy (which amounts shall constitute a deficiency in the Reserve Fund Requirement). Any such amounts shall be paid to the provider of such letter of credit, surety bond or insurance policy as provided therein or in any related agreement.

### **Investment of Moneys in Funds and Accounts**

Prior to the Transition Date, all moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture will be invested, as directed by the City, solely in Investment Securities; provided, however, that Investment Securities purchased with moneys held by the Trustee in the Parity Reserve Fund shall have an average weighted term to maturity not greater than five years. On and after the Transition Date, all moneys in any of the funds, accounts and subaccounts held by the

Trustee and established pursuant to the Indenture shall be invested, as directed by the City, solely in Investment Securities. All Investment Securities will, as directed by the City in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the City. The Trustee may conclusively rely upon any investment direction from the City as a certification to the Trustee that such investment constitutes an Investment Security. If and to the extent the Trustee does not receive investment instructions from the City with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys will be invested in Investment Securities described in clause (xi) of the definition thereof and the Trustee will thereupon request investment instructions from the City for such moneys.

Unless otherwise provided in the Indenture or in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account, other than the Rebate Fund, will be transferred to the Electric Revenue Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited in the Rebate Fund, except as provided in the Indenture. Notwithstanding anything to the contrary contained in the Indenture, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account from which such accrued interest was paid.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The City may and the Trustee will, upon the Request of the City, and provided that the Trustee is supplied with an Opinion of Bond Counsel to the effect that such action is permitted under the laws of the State of California, enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof and the amounts received by the City or the Trustee, if any, pursuant to such a swap agreement may be applied to the deposits required under the Indenture; in which case, the entity with which the City or the Trustee may contract for an interest rate swap is limited to entities the debt securities of which are rated in their respective highest short-term debt Rating Categories by Moody's and Standard & Poor's. If the City so designates, amounts payable under the interest rate swap agreement (other than termination payments due thereunder which will be made expressly subordinate to the payment of the Bonds) will be secured by Electric Net Revenues on a parity basis with the Bonds and any Parity Debt and, in such event, the City will pay to the Trustee for deposit in the Debt Service Fund, at the times and in the manner provided by the Indenture, the amounts to be paid under such interest rate swap agreement, as if such amounts were additional interest due on the Bonds to which such interest rate swap agreement relates, and the Trustee will pay to the other party to the interest rate swap agreement, to the extent required thereunder, amounts deposited in the Debt Service Fund for the payment of interest on the Bonds with respect to which such agreement was entered.

## Covenants

Pursuant to the Indenture, the City has covenanted as follows:

*Punctual Payment.* The City will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and will punctually pay or cause to be paid all mandatory sinking fund payments, but in each case only out of Electric Net Revenues, as provided in the Indenture.

*Extension of Payment of Bonds.* The City will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest of such Bonds or claims for interest and in case the maturity of any of the Bonds or the time of payment of any such claims for interest will be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture will be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

*Waiver of Laws.* The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the City to the extent permitted by law.

*Further Assurances.* The City will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

*Against Encumbrances.* After the date of the Indenture, the City will not issue any additional Senior Bonds under the Senior Indenture. The City will not create any pledge, lien or charge upon any of the Electric Net Revenues, having priority over the lien of the Bonds; provided, however, that nothing in the Indenture will be construed to limit the ability of the City to issue or incur obligations secured by charges, not constituting Electric Net Revenues, collected by any person to amortize or otherwise relating to the payment of the “stranded costs” of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds, the payments of which charges will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City.

The City will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the City in, upon, about or relating to the Electric System and will keep the Electric System free of any and all liens against any portion of the Electric System. In the event any such lien attaches to or is filed against any portion of the Electric System, the City will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so if contesting such lien will not materially impair operation of the Electric System. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not

promptly stayed, or if so stayed and such stay thereafter expires, the City will forthwith pay or cause to be paid and discharged such judgment.

*Accounting Records and Financial Statements.* The City will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with Generally Accepted Accounting Principles Applicable to Governments, in which complete and accurate entries shall be made of all calculations relating to Electric Net Revenues. Such books of record and account shall be available for inspection by the Trustee (who shall have no duty to inspect) or the Bondowners at reasonable hours and under reasonable circumstances.

The City will furnish the Trustee, within one hundred and eighty (180) days after the end of each Fiscal Year, the financial statements of the City's Electric and Water Enterprise Fund for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with Generally Accepted Accounting Principles Applicable to Governments and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the Treasurer of the City stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the City to cure such default. Thereafter, a copy of such financial statements will be furnished to any Owner of Bonds upon written request to the City. The Trustee shall have no duty to review such financial statements.

The City shall furnish to the Trustee within thirty (30) days after approval thereof, the annual budget of the City for the City's Electric and Water Enterprise.

*Tax Covenants.* The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the City may exclude the application of certain covenants contained in the Indenture to such Series of Bonds. The City will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the City, or take or omit to take any action that would cause the Bonds to be arbitrage bonds within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the City is of the opinion that for purposes of this covenant it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the City will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The City specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement at the times and in the amounts determined under and as described in the Tax Certificate.

Notwithstanding any provision of the Indenture, if the City shall receive an Opinion of Bond Counsel to the effect that any action required under the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the City and the Trustee may rely conclusively on such

opinion in complying with the provisions of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

*Rates and Charges.* The City covenants that it will prescribe, revise and collect such charges for the services, facilities and electricity furnished by the Electric System which, after making allowances for contingencies and error in the estimates, will provide Electric Net Revenues at least sufficient to pay the following amounts in the order set forth:

(i) The interest on, and principal and Redemption Price of, the outstanding Bonds and any Parity Debt as the same shall become due and payable;

(ii) All payments required for compliance with the Indenture, including payments required to be made into any bond reserve fund; and

(iii) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Electric Net Revenues;

and the charges will be fixed so that in each Fiscal Year (i) the Electric Net Revenues will be at least equal to 1.00 times the amount required to pay the items specified in clauses (a), (b) and (c) above, and (ii) the Adjusted Electric Net Revenues will be at least equal to the Coverage Requirement.

*Maintenance and Operation of System; Insurance.* The City will maintain and preserve the Electric System in good repair and working order at all times, and will operate the Electric System in an efficient and economical manner. Subject in each case to the condition that insurance is obtainable at rates deemed reasonable by the City and upon terms and conditions deemed reasonable by the City, the City will procure and maintain at all times: (a) insurance on the Electric System against such risks as and in such amounts as the City deems prudent taking into account insurance coverage for similar utilities, and (b) public liability insurance, including self-insurance, as appropriate, in such amounts as the City deems prudent taking into account insurance coverage for similar utilities.

*Sale of Electric System.* The Electric System will not be sold or leased or otherwise disposed of as a whole, or substantially as a whole, unless such sale, lease or other disposition be so arranged as to provide for a continuance of timely payments sufficient in amount to permit payment therefrom of the principal of and interest on, and premiums, if any, due upon the redemption of, all Bonds and Parity Debt (including, if applicable, the imposition of any charges collected by any person to amortize or otherwise relating to the payment of "stranded costs" of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of the Bonds the imposition of which will amortize the payment in full, together with other moneys available for such purpose, of such Outstanding Bonds through the maturity thereof) payable out of Electric Net Revenues, or to provide for such payments into some other fund charged with such payments. None of the works, plant, properties, facilities or other part of the Electric System or any real or personal property comprising a part of the Electric System will be sold, leased or otherwise disposed of if such sale, lease or disposition would cause the City to be unable to satisfy the requirements of the Indenture.

*Continuing Disclosure Agreement.* The City will comply with and carry out all of its obligations under any Continuing Disclosure Agreement executed in connection with a Series of Bonds. Upon the failure of the City to comply with the Continuing Disclosure Agreement relating to any Series of Bonds, the Trustee (at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Owners of at least 25% in aggregate Bond Obligation of the related Series of Bonds, shall, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys) or any Owner or Beneficial Owner may

take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, to comply with its obligations under this section. For purposes of this section, "Beneficial Owner" shall have the meaning prescribed thereto in the respective Continuing Disclosure Agreement relating to such Series of Bonds.

### **Events of Default; Remedies**

*Events of Default.* The following events will be Events of Default under the Indenture:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) failure by the City to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in paragraph (a) or (b) above, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee; except that, if such failure can be remedied but not within such thirty (30) day period and if the City has taken all action reasonably possible to remedy such failure within such thirty (30) day period, such failure will not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) default by the City under any agreement governing any Parity Debt and the continuance of such default beyond the therein stated grace period, if any, with respect to such default;

(e) the filing by the City of a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or an assignment by the City for the benefit of creditors, or the admission by the City in writing to its insolvency or inability to pay debts as they mature, or the consent by the City in writing to the appointment of a trustee or receiver for itself;

(f) the entering by a court of competent jurisdiction of an order, judgment or decree declaring the City insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree will not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(g) the assumption, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of custody or control of the City or of the Electric Net Revenues and such custody or control will not be terminated within sixty (60) days from the date of assumption of such custody or control.

*Application of Electric Net Revenues and Other Funds After Default; Acceleration.* If an Event of Default shall occur and be continuing, the City will immediately transfer to the Trustee all Electric Net Revenues held by it and received thereafter and the Trustee will apply all Electric Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

In each and every such case during the continuance of such Event of Default, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding will be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the City will pay to or will deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

*Trustee to Represent Bondholders.* The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any other law.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right.

*Bondholders' Direction of Proceedings.* Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee provided under the Indenture, that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

*Limitation on Bondholders' Right to Sue.* No Owner of any Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

*Absolute Obligation of the City.* Nothing in the Indenture or in the Bonds contained will affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective due dates therefor or upon call for redemption, as provided in the Indenture, but only out of the Electric Net Revenues and other assets pledged in the Indenture, therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

*Termination of Proceedings.* In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the City, the Trustee and the Bondholders, subject to any determination in such proceedings, will be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bondholders will continue as though no such proceedings had been taken.

*Remedies Not Exclusive.* No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

### **Special Insurance Provisions**

So long as the payment of principal of and interest on any 2001 Bonds is insured by a municipal bond insurance policy issued simultaneously with the delivery of the 2001 Bonds, anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the bond insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the 2001 Bonds (or to the Trustee for the benefit of the Owners of the 2001 Bonds insured by the bond insurer under the Indenture as if (and to the extent that) the bond insurer were the Owner of all of the 2001 Bonds insured by the bond insurer then Outstanding, including, without limitation, (i) the right to pursue any available remedy at law or in equity to enforce the payment of the principal and interest and premium, if any, (including the right to accelerate the principal of the 2001 Bonds as described in the Indenture) on the 2001 Bonds and (ii) the right to waive any Event of Default with respect to the 2001 Bonds (including the right to rescind and annul any declaration of acceleration of the 2001 Bonds as described in the Indenture) insured by the bond insurer.

### **The Trustee**

*Appointment; Duties, Immunities and Liabilities of Trustee.* The Trustee is appointed under the Indenture and accepts the trust imposed upon it as Trustee under the Indenture and to perform all the functions and duties of the Trustee under the Indenture, subject to the terms and conditions set forth in the Indenture. The Trustee will, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

Any Trustee appointed under the provisions in the Indenture in succession to the Trustee will be a trust company or bank having the powers of a trust company having a corporate trust office in the State, having a combined capital and surplus of at least fifty million dollars (\$50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in this Section.

If, by reason of the judgment of any court, the Trustee or any successor Trustee is rendered unable to perform its duties under the Indenture, and if no successor Trustee be then appointed, all such duties and all of the rights and powers of the Trustee under the Indenture will be assumed by and vest in the Treasurer of the City in trust for the benefit of the Bondowners.

*Liability of Trustee.* The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of the Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Electric Net Revenues, or the priority of the lien of the Indenture thereon, or as to the financial or technical feasibility of the Electric System and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Indenture.

The Trustee will not be liable for any error of judgment made in good faith by a responsible officer unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, but the Trustee will be answerable for the negligence or misconduct of any such attorney, agent, or receiver selected by it; provided, however, that the Trustee will not be answerable for the negligence or misconduct of any attorney or certified public accountant selected by it with due care.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture, unless such Bondholders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

The Trustee will not be deemed to have knowledge of and will not be required to take any action with respect to, any Event of Default (other than certain Events of Default described in the Indenture) or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default, unless the Trustee shall have actual knowledge of such event or shall have been notified of such event by the City or the Owners of twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding. Without limiting the generality of the foregoing, the Trustee will not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Indenture (including, without limitation, the covenants of the City set forth in the Indenture), other than certain covenants of the City to make payments with respect to the Bonds when due as set forth in the Indenture and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee under the Indenture.

## **Amendments**

*Amendments Permitted.* The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding.

In lieu of satisfying certain requirements of the Indenture, the Indenture and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may also be modified or amended at any time by a Supplemental Indenture entered into by the City and the Trustee which shall become binding when the written consents of each provider of a letter of credit or a policy of bond insurance for the Bonds shall have been filed with the Trustee, provided that at such time the payment of all the principal of and interest on all Outstanding Bonds will be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which will be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody's or Standard & Poor's. A copy of each such Supplemental Indenture will be sent by the City to Moody's and Standard & Poor's.

No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Electric Net Revenues and

other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Electric Net Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution and delivery by the Trustee and the City of any Supplemental Indenture pursuant to this paragraph, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred in the Indenture upon the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Indenture;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of the Bonds;

(6) if the City agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

## **Defeasance**

*Discharge of Indenture.* Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

- (i) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;
- (ii) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem such Outstanding Bonds; or
- (iii) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City filed with the Trustee signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Electric Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

*Discharge of Liability on Bonds.* Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such Bond will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City will remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to certain provisions of, and the continuing duties of the Trustee under, the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

*Deposit of Money or Securities with Trustee.* Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of March 1, 2010 (the “Disclosure Agreement”), is executed and delivered by the City of Burbank, California (the “City”) and Wells Fargo Bank, National Association, as successor trustee (the “Trustee”), in connection with the issuance of \$35,825,000 aggregate principal amount of City of Burbank, California Burbank Water and Power Department Electric Revenue/Refunding Bonds, Series of 2010A (the “Series 2010A Bonds”) and the issuance of \$52,665,000 aggregate principal amount of City of Burbank, California Burbank Water and Power Department Electric Revenue Bonds, Series of 2010B (Taxable Build America Bonds) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “2010 Bonds”). The 2010 Bonds are being issued pursuant to a Burbank Water and Power Electric Revenue Bond Indenture, dated as of October 1, 1998 (the “Master Electric Revenue Bond Indenture”), by and between the City and the Trustee, as supplemented and amended, including by a Fourth Supplemental Burbank Water and Power Department Electric Revenue Bond Indenture, dated as of March 1, 2010 (the “Fourth Supplemental Indenture”), relating to the Series 2010A Bonds, and by a Fifth Supplemental Burbank Water and Power Department Electric Revenue Bond Indenture, dated as of March 1, 2010 (the “Fifth Supplemental Indenture”), relating to the Series 2010B Bonds. The Master Electric Revenue Bond Indenture, as previously supplemented and amended, and as supplemented and amended by the Fourth Supplemental Indenture and by the Fifth Supplemental Indenture, is referred to herein collectively as the “Indenture.” The City and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Trustee for the benefit of the Owners and Beneficial Owners of the 2010 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any 2010 Bonds (including persons holding 2010 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2010 Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designed by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Owner” shall mean either the registered owners of the 2010 Bonds, or, if the 2010 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Participating Underwriter” shall mean the original underwriter of the 2010 Bonds required to comply with the Rule in connection with offering of the 2010 Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

### SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the City’s Fiscal Year, commencing with the report for the 2009-10 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of the City’s Water and Electric Utility Enterprise Funds may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes for the City, the City shall give notice of such change in the manner provided under Section 5 hereof.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide its Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine prior to the date for providing the Annual Report for such year the electronic filing address of, and the then-current procedure for, submitting Annual Reports to the MSRB; and

(ii) file a report with the City (and if the Dissemination Agent is not the Trustee, the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided. The Dissemination Agent shall have no responsibility for the content of any Annual Report.

#### SECTION 4. Content of Annual Reports.

(a) The City's Annual Report shall contain or include by reference the following with respect to the 2010 Bonds:

(i) The audited financial statements of the City's Electric Utility Fund for the most recently completed Fiscal Year, prepared in accordance with generally accepted accounting principles for governmental enterprises as prescribed from time to time by any regulatory body with jurisdiction over the City and by the Governmental Accounting Standards Board;

(ii) Updated information comparable to the information in the chart entitled "Annual Retail Electric Supply" as it appears on page 26 in the Official Statement, dated March 17, 2010, relating to the 2010 Bonds (the "Official Statement");

(iii) Updated information comparable to the information in the chart entitled "Electric Revenues and Peak Demand" as it appears on page 37 in the Official Statement;

(iv) Updated information, to the extent deemed by the City to be not proprietary information, comparable to the information in the chart entitled "Average Number of Retail Customers" as it appears on page 38 in the Official Statement;

(v) Updated information comparable to the information in the chart entitled "Weighted Average Retail Billing Price" as it appears on page 39 in the Official Statement; and

(vi) Updated information comparable to the information in the chart entitled "Historical Net Revenues and Debt Service Coverage - Electric System" as it appears on page 42 in the Official Statement.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or public entities related thereto, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

(c) The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the legal form of the City; provided, that any such modifications shall comply with the requirements of the Rule.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2010 Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) modifications to rights of the Owners;
- (iv) optional, contingent or unscheduled 2010 Bond calls;
- (v) defeasances;
- (vi) rating changes;
- (vii) adverse tax opinions or events affecting the tax-exempt status of the Series 2010A Bonds;
- (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on the credit enhancements reflecting financial difficulties;
- (x) substitution of the credit or liquidity providers or their failure to perform; or
- (xi) release, substitution or sale of property securing repayment of the 2010 Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If the City has determined that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected 2010 Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of the City and the Trustee under this Disclosure Agreement with respect to the 2010 Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2010 Bonds, as the case may be.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may

discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Wells Fargo Bank, National Association.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the City which does not impose any greater duties nor any greater risk of liability on the Trustee), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2010 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2010 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the 2010 Bonds in the same manner as provided in the Indenture with respect to amendments to the Indenture which require the consent of Owners, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the 2010 Bonds.

If any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the manner as provided under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report.

SECTION 10. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 11. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of outstanding 2010 Bonds, shall), or any Owner or Beneficial Owner of the 2010 Bonds may take such actions as may be necessary and

appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Section 8.01 of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2010 Bonds. If the Trustee performs the duties assigned to it hereunder, the Trustee shall not be responsible to any person for any failure by the City or the Dissemination Agent (if other than the Trustee) to perform duties or obligations imposed hereby.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the 2010 Bonds, and shall create no rights in any other person or entity. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. Neither the Trustee nor the Dissemination Agent shall be liable under any circumstances for monetary damages to any person for any breach of this Disclosure Agreement.

SECTION 14. Notices. All written notices to be given hereunder shall be given in person or by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

To the City:       City of Burbank  
                      275 East Olive Avenue  
                      Burbank, California 91502  
                      Attention: City Clerk  
                      FAX: (818) 238-5853

with a copy to :   City of Burbank  
                      Burbank Water & Power  
                      164 West Magnolia Boulevard  
                      Burbank, California 90502  
                      Attention: Chief Financial Officer  
                      FAX: (818) 238-3727

To the Trustee:   Wells Fargo Bank, National Association  
                      707 Wilshire Boulevard, 17<sup>th</sup> Floor  
                      MAC# E2818-176  
                      Los Angeles, California 90017  
                      Attention: Corporate Trust Department  
                      FAX: (213) 614-3355

The Trustee and the City may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Unless specifically otherwise required by the context of this Disclosure Agreement, any notices required to be given hereunder to the Trustee or the City may be given by any form of electronic transmission capable of producing a written record. Each such party shall file with the Trustee information appropriate to receiving such form of electronic transmission.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

CITY OF BURBANK

By: \_\_\_\_\_  
Title: \_\_\_\_\_

APPROVED AS TO FORM:

\_\_\_\_\_  
Senior Assistant City Attorney

ATTEST:

\_\_\_\_\_  
City Clerk

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: CITY OF BURBANK, CALIFORNIA

Name of Issue: \$35,825,000 CITY OF BURBANK, CALIFORNIA BURBANK WATER AND  
POWER DEPARTMENT ELECTRIC REVENUE/REFUNDING BONDS,  
SERIES OF 2010A

\$52,665,000 CITY OF BURBANK, CALIFORNIA BURBANK WATER AND  
POWER DEPARTMENT ELECTRIC REVENUE BONDS, SERIES OF 2010B  
(TAXABLE BUILD AMERICA BONDS)

Date of Issuance: March 31, 2010

NOTICE IS HEREBY GIVEN that the City of Burbank, California (the "City") has not provided an Annual Report with respect to the above-named bonds as required by the Continuing Disclosure Agreement, dated as of March 1, 2010, between the City and Wells Fargo Bank, National Association, as trustee. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as trustee, on behalf of  
the City of Burbank

By: \_\_\_\_\_

Title: \_\_\_\_\_

cc: City of Burbank

**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

City of Burbank  
Burbank, California

\$35,825,000  
City of Burbank, California  
Burbank Water and Power  
Electric Revenue/Refunding Bonds, Series of 2010A

\$52,665,000  
City of Burbank, California  
Burbank Water and Power  
Electric Revenue Bonds, Series of 2010B  
(Taxable Build America Bonds)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Burbank, California (the “City”) of its \$35,825,000 Burbank Water and Power Electric Revenue/Refunding Bonds, Series of 2010A (the “Series 2010A Bonds”) and \$52,665,000 Burbank Water and Power Electric Revenue Bonds, Series of 2010B (Taxable Build America Bonds) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “2010 Bonds”). The 2010 Bonds are being authorized and issued pursuant to Article 12 of Chapter 4 of Title 2 (formerly Article 12 of Chapter 14) of the Burbank Municipal Code, as amended (the “Bond Law”). The 2010 Bonds are also being issued pursuant to a Burbank Water and Power Electric Revenue Bond Indenture, dated as of October 1, 1998, by and between the City and U.S. Bank Trust National Association, which has been succeeded by Wells Fargo Bank, National Association, as trustee (the “Trustee”), as amended and supplemented, including by a Fourth Supplemental Burbank Water and Power Electric Revenue Bond Indenture and by a Fifth Supplemental Burbank Water and Power Electric Revenue Bond Indenture, each dated as of March 1, 2010, each by and between the City and the Trustee (collectively, the “Indenture”).

As bond counsel, we have reviewed the Bond Law, the Indenture, certifications of the City, the Trustee and others, opinions of counsel to the City and the Trustee, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Based upon the foregoing, we are of the opinion that:

1. The 2010 Bonds constitute valid and binding special, limited obligations of the City and are payable exclusively from and are secured by a pledge of the Electric Net Revenues and certain amounts held under the Indenture, as provided in the Indenture, and are entitled to the benefits of the Indenture.

2. The Indenture has been duly and validly authorized, executed and delivered by the City and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the City, enforceable against the City in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the 2010 Bonds, of the Electric Net Revenues and certain other amounts held by the Trustee in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof and on the terms and conditions set forth therein.

3. The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2010A Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2010A Bonds to be included in gross income retroactive to the date of issue of the Series 2010A Bonds. The City has covenanted in the Indenture to maintain the exclusion of interest on the Series 2010A Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing statutes, regulations, rulings and court decisions, interest on the 2010 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Series 2010A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Series 2010A Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Series 2010A Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Series 2010A Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75% of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2010 Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2010 Bonds, or the interest thereon, if any action is taken with respect to the 2010 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

The opinion expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the 2010 Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. Further, the enforceability of the 2010 Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in the State of California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2010 Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

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**APPENDIX F**

**ELECTRIC SYSTEM DEBT SERVICE REQUIREMENTS <sup>(1)</sup>**

Year Ending June 1	Prior Bonds										Total
	1998 Bonds		2001 Bonds		2002 Bonds		Series 2010A Bonds		Series 2010B Bonds		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$1,865,000.00	\$972,665.63	\$1,170,000.00	\$313,287.50	\$ 1,155,000.00	\$ 942,310.00	--	--	--	--	\$ 6,418,263.13
2011	--	--	2,605,000.00	104,200.00	1,200,000.00	898,997.50	--	\$ 1,981,740.55	--	\$ 3,853,434.00	10,643,372.05
2012	--	--	--	--	1,245,000.00	850,997.50	\$ 2,290,000.00	1,694,600.00	--	3,295,097.96	9,375,695.46
2013	--	--	--	--	1,295,000.00	801,197.50	2,490,000.00	1,625,900.00	--	3,295,097.96	9,507,195.46
2014	--	--	--	--	1,350,000.00	746,160.00	2,595,000.00	1,526,300.00	--	3,295,097.96	9,512,557.96
2015	--	--	--	--	1,415,000.00	682,035.00	2,700,000.00	1,422,500.00	--	3,295,097.96	9,514,632.96
2016	--	--	--	--	1,480,000.00	619,775.00	2,835,000.00	1,287,500.00	--	3,295,097.96	9,517,372.96
2017	--	--	--	--	1,545,000.00	553,175.00	2,975,000.00	1,145,750.00	--	3,295,097.96	9,514,022.96
2018	--	--	--	--	1,630,000.00	472,062.50	3,125,000.00	997,000.00	--	3,295,097.96	9,519,160.46
2019	--	--	--	--	1,715,000.00	384,450.00	3,280,000.00	840,750.00	--	3,295,097.96	9,515,297.96
2020	--	--	--	--	1,805,000.00	292,268.76	3,445,000.00	676,750.00	--	3,295,097.96	9,514,116.72
2021	--	--	--	--	1,905,000.00	195,250.00	3,200,000.00	504,500.00	--	3,295,097.96	9,099,847.96
2022	--	--	--	--	2,000,000.00	100,000.00	3,360,000.00	344,500.00	--	3,295,097.96	9,099,597.96
2023	--	--	--	--	--	--	3,530,000.00	176,500.00	--	3,295,097.96	7,001,597.96
2024	--	--	--	--	--	--	--	--	\$ 2,210,000.00	3,295,097.96	5,505,097.96
2025	--	--	--	--	--	--	--	--	2,295,000.00	3,159,779.66	5,454,779.66
2026	--	--	--	--	--	--	--	--	2,390,000.00	3,019,256.80	5,409,256.80
2027	--	--	--	--	--	--	--	--	2,485,000.00	2,872,917.10	5,357,917.10
2028	--	--	--	--	--	--	--	--	2,585,000.00	2,720,760.56	5,305,760.56
2029	--	--	--	--	--	--	--	--	2,690,000.00	2,562,481.00	5,252,481.00
2030	--	--	--	--	--	--	--	--	2,800,000.00	2,397,772.30	5,197,772.30
2031	--	--	--	--	--	--	--	--	2,915,000.00	2,226,328.30	5,141,328.30
2032	--	--	--	--	--	--	--	--	3,035,000.00	2,042,012.86	5,077,012.86
2033	--	--	--	--	--	--	--	--	3,160,000.00	1,850,109.80	5,010,109.80
2034	--	--	--	--	--	--	--	--	3,290,000.00	1,650,303.00	4,940,303.00
2035	--	--	--	--	--	--	--	--	3,430,000.00	1,442,276.30	4,872,276.30
2036	--	--	--	--	--	--	--	--	3,570,000.00	1,225,397.40	4,795,397.40
2037	--	--	--	--	--	--	--	--	3,715,000.00	999,666.30	4,714,666.30
2038	--	--	--	--	--	--	--	--	3,870,000.00	764,766.86	4,634,766.86
2039	--	--	--	--	--	--	--	--	4,030,000.00	520,066.76	4,550,066.76
2040	--	--	--	--	--	--	--	--	4,195,000.00	265,249.86	4,460,249.86
Total	\$1,865,000.00	\$972,665.63	\$3,775,000.00	\$417,487.50	\$19,740,000.00	\$7,538,678.76	\$35,825,000.00	\$14,224,290.55	\$52,665,000.00	\$76,408,852.34	\$213,431,974.78

<sup>(1)</sup> Immediately following the issuance of the 2010 Bonds.

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